

HOUSING POLICY: AN END OR A NEW BEGINNING?

Edited by
MARTIN LUX

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Foreword

This book was prepared under the “Local Government Policy Partnership” Program, the joint project of two donor organizations. The British Government’s Department for International Development (DFID) and the Open Society Institute, Budapest’s Local Government and Public Service Initiative (LGI) launched this regional program together. The “Local Government Policy Partnership” (LGPP) projects intend to contribute to policy development and innovation within these countries (<http://lgi.osi.hu/lgpp/>).

The LGPP hopes to develop expertise and support professional cooperation amongst local government specialists throughout Central and Eastern Europe. Parallel to this, the experiences gathered throughout the region should be made available in Central and Eastern Europe as well as in Central Asia. The core partner countries are the Czech Republic, Hungary, Poland and Slovakia. However, other countries have been invited to participate in these regional projects, in order to help facilitate direct information exchange and comparisons of policy efforts.

LGPP publications include policy studies and proposals that have been presented to government officials and experts in the countries involved. Targeted beneficiaries of LGPP projects are national government ministries, local government associations, research and training institutions, and individual local authorities throughout the CEE region. LGPP intends to publish three studies a year.

In the first year of operation, the LGPP selected the following three policy areas for analysis: (i) education financing and management; (ii) regulation and competition of local utility services, and (iii) public perception of local governments. The policy studies were widely disseminated in our region. They supported the policy dialogue (e.g. on education in Macedonia) and served as training materials (e.g. for regulatory experts).

Topics for the second year of LGPP (2001/2002) were rather different by nature:

- a) decentralization and regional development;
- b) the relationship between local government size, local democracy and local services delivery;
- c) local government and housing.

In this volume, the practices and lessons of local social housing policies are discussed. Studies from six countries describe the different patterns of privatization during the past decade and give an assessment of national housing policies. Using the standardized survey of this LGPP project, the country reports evaluate the effectiveness of local government housing policies. Both the country papers and the summary chapter formulate some policy recommendations for national and local governments.

Ken Davey
November 2002

Gábor Péteri

PART I.

Public Housing Policies:
Economic and
Social Perspectives

Local Government and Housing

Martin Lux

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Public Housing Policies: Economic and Social Perspectives

Local Government and Housing

Martin Lux

1. THEORETICAL FRAMEWORK

Housing is not a simple category that can be viewed from a single perspective. On one hand, housing is one of the basic human needs and the right to adequate housing has been classified as a basic social human right in most developed countries around the world. On the other hand, housing constitutes a special type of private property, traded on the market. Although trade-offs between the social and economic aspects of housing may have to be made, the purpose of both central and local housing policies lies in searching for a consensus that assures both the effective functioning of the housing market and the financial affordability of housing for all social groups within a society.

1.1 Economic Perspective

From a purely economic perspective, housing constitutes private property because it is not available in a non-competitive manner and does not have the same characteristics as public goods.¹ However, housing economics notes the following essential differences between housing and standard market commodities:

- 1) Housing is a very heterogeneous, complex and multidimensional good. Individual houses, and apartments or flats, differ in floor space, design, age, quality, standard, furnishings, tenure, size and number of additional spaces or buildings (garage, garden, etc.) location, quality of the environment, accessibility and so on. It is very difficult to measure the unit of output and the demand for housing in general because the rent paid for a small flat can be the same as for a larger family house, even under conditions of optimal distribution and market equilibrium. Therefore, housing economics have introduced a theoretical construct called housing service. It is assumed that, in a state of equilibrium,

the price per housing service unit will be the same in all types of dwelling units. Households or individuals thus demand housing services rather than housing on the market.

- 2) Housing is a durable good and as such it becomes subject to both consumption and investment. "There are two housing markets. In one, the consumer good, housing service, is exchanged and the price per unit of housing service is determined. In the other, the investment good, housing stock, is exchanged and the price per unit of housing stock is determined." [Fallis, 1985, 6]. In a perfect market, the price of a housing stock unit will equal the discounted present value of housing service flows (discounted by the interest rate and depreciation). However, housing consumption and investment motives may conflict: The consumer wishes to maximize utility but the investor chooses from all the options a housing unit with a maximum net present value of expected future returns. Moreover, a household willing to acquire housing must make an important decision: To rent or to buy. By choosing to rent a dwelling, the household is participating in the market of housing services only because, under standard conditions, rental housing is not an investment. The situation is slightly different in several CEE countries.
- 3) Housing is a spatially fixed good and cannot be moved from one location to another. To buy a dwelling means not only to buy a particular dwelling but also to buy the socio-economic status of a neighborhood and the level of accessibility to the place of employment. The price per unit of homogeneous housing services varies with distance: Near the center of employment the price will be higher than when farther away. The access-space trade-off model developed by Alonso (1964) explains why prices for the land production factor must decrease with the distance from the center of employment (meaning the center of the town).

Other specific features of housing include, in particular:

- High transaction costs of potential moving i.e. as finding and furnishing a new dwelling and moving involves considerable expenses (not only monetary expenditures but also time and emotions invested) that do not relate directly to the acquisition of a new dwelling. These constitute so-called transaction costs. The market adapts to changes in household income (the income effect) very slowly, compared to potential adaptations, if the transaction costs equal zero. "Such costs may range between 5 and 10 percent of the total price of a house, particularly where movement entails both selling and purchase costs." (Maclennan 1982: 61) The transaction costs are often so great (especially if intermediaries such as real estate agencies are included) that they, to a large extent, influence the selection of future housing itself. Stigler (1961) used his own model, for example, to prove that the greater the difference between

the highest and lowest prices offered for dwellings of the same standard (i.e. the greater the difference between the prices offered for relatively comparable housing) the greater the likelihood the buyer will spend more time looking and will go through more inspections, if we assume costs related to the inspection of each offered dwelling remain constant. Moreover, housing is a relatively illiquid good, at least in comparison to financial assets and at the same time a very expensive one. Therefore, people are extremely careful before they make the final decision to buy and it takes them far more time to make this decision than is the case with other consumer goods.

- The inability to attain perfect knowledge about the situation on the market. Neither the buyer nor the seller can acquire perfect knowledge about all the offers for the various housing services in such a dispersed market. As mentioned above, housing is a heterogeneous good and to behave rationally (to make a decision) it is necessary not only to know the price of a dwelling but also the price of particular housing attributes in various regions and locations where a potential client may look. It may even take real estate agents a long time before they notice changes in demand and supply on the market. The information is never free and this expense contributes to the high transaction costs related to moving mentioned above.

Due to its durability, housing represents a very expensive good traded on a market where supply adjusts very slowly to sharp changes in demand. Moreover, due to its special fixity, many externalities can appear on the housing market.

If a market is perfectly competitive, all the participants (buyers and sellers) consider the price to be a given and assume that their individual behavior cannot change it. In such a market, there must be a large number of sellers and buyers and none of them may control the market or a significant segment thereof. In such a case, the price equals the marginal utility of consumers and the marginal costs of producers and the market finds itself in a Pareto optimum. As Fallis postulates (1985: 148), even a market with a smaller number of actors on the supply side may obtain an equilibrium price and the optimum amount of exchange. Such a market must be “open to competition”. It must be a market where potential newcomers on the supply side may acquire complete information about its functioning, operate at the same cost and under the same production conditions as the existing producers and the entry to or the exit from the market must not be contingent upon any special costs. If the market is open to competition, even a market with only a few entities on the supply side may produce optimum output.

Although a perfect situation can never be attained, if we compare the efficiency of the functioning of the housing market with respect to the number of sellers and buyers on other markets, we will most likely come to the conclusion that on both sides of the market (supply and demand) there is a relatively large number of players. Even if we

examine the home-ownership market separately from the rental market, we will still find a great number of participants on the supply and demand sides. “It is sometimes popularly asserted that a few companies own a large fraction of the rental stock. This is simply untrue—the rental stock is widely held in Canadian cities.” [Fallis 1985: 149]. “In general, economists assume that the housing market is atomistically competitive. In the British context, assumptions of monopoly ownership have only been made by political commentators or Labour Party legislators in relation to private rental housing. Even in quite small areas of cities, the ownership of rented property is considerably dispersed and the development of new housing is also deconcentrated. Ironically, it is only really local public authorities whom are monopolists in a market sense and their monopoly may be reflected, not only in exploitative prices but also in poor practice, which, in some cases, may result in some tenants paying council rents in excess of probable market rentals.” [Maclennan, 1982: 155–6]. “The fact that house prices and rents can change substantially in the short run may cause equity problems, but it is neither non-competitive nor inefficient... Nevertheless, the supply of housing displays no major violations of the competitive assumptions.” [Barr, 1993: 386]. However, the adjustment of a market is relatively slow and even sharp price variations can appear on a non-regulated housing market in the short run. This “short-run price instability” is an implicit feature of the housing market.

Another case of market failure involves externalities. The indirect consumer externalities, externalities following from the housing stock reconstruction/regeneration and externalities following from land use are usually considered to be the most significant ones in the housing market. Indirect consumer externality arises when the consumption of one household influences the total utility of another household’s consumption indirectly, through another factor. For example, the housing consumption of one household (excessive number of people living in a flat as a result of the specific social situation of that household) may influence the crime rate in a given area (aggressive antisocial behavior). This, in turn, may influence the total utility of housing consumption of other households. Health problems (infections), vandalism, intentional destruction and sabotage of the environment may serve as other examples. State intervention (greater law enforcement in the case of criminal conduct, minimum housing standards, etc.) may result in the elimination of these externalities and lead to a Pareto optimum.

In addition to negative externalities, there are also positive externalities on the housing market due to housing stock renovation. When purchasing or renting a dwelling, people consider not only the quality of such a dwelling but also the quality of the surrounding environment. If an owner invests in repairs and the renovation of his/her house, then it is not only the owner but also everyone else living in the neighborhood that gain from the renovation (the neighborhood effect). There is a problem, though: If all owners renovated their houses, the profit would be much greater than if only one of them does so. Owners thus often must consider whether or not to go ahead with

renovation because they do not know whether the other owners will renovate their houses too. This results in the well-known “prisoner’s dilemma”. The active mediation role of public bodies may greatly contribute to the regenerative process.

1.2 Social Perspective

As mentioned at the beginning of the theoretical framework chapter, housing is also perceived as a basic social need of human beings and its standard greatly influences the standard of welfare of the whole society. Housing insecurity can have far reaching consequences for the labor market, as well as for the political stability in a particular country. In view of the increased acceptance of the concept of the *welfare state* after World War II (a concept which is being more clearly redefined today) the right to adequate housing has become one of the fundamental social rights in all economically developed countries and the responsibility for housing has gradually transferred from the consumer and family to public authorities and public finances.

The right to housing is a social right, and social rights constitute the third element of human rights (the other two being political and civil rights). The main principle of the right to housing is equal and non-discriminatory access to housing with respect to race, creed, and sex. In the Housing Policy Guidelines, approved by the UN European Economic Commission for Human Settlements and published in 1992, the right to housing is characterized as unenforceable and non-claimable. The guidelines express the obligation of governments to assume responsibility for this area and to ensure that a satisfactory level of housing is provided to citizens. In some countries, housing in general—as a field meriting the particular “attention” of the State—is included directly in the Constitution.²

The right to housing as one of the human rights is formulated in a number of international documents, the oldest being the Universal Declaration on Human Rights, which the UN General Assembly adopted in December 1948. Article 25 of this document states that “Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services...”. In Principle 4 of the Declaration on the Rights of the Child, adopted in November 1959, it is stated “the child shall have the right to adequate nutrition, housing, recreation and medical services...”. Part II, Article 10 of the Declaration on Social Progress and Development, adopted in December 1969, states that “the basic freedoms can be attained also by provision for all, particularly persons in low income groups and large families, of adequate housing and community services.” Article 11 of the International Covenant on Economic, Social and Cultural Rights adopted in 1966 states “the State Parties to the present Covenant recognize the right of everyone to an adequate standard of living for himself and his family, including adequate food,

clothing and housing, and to the continuous improvement of living conditions”. To support the realization of the obligations under this International document, the UN Council for Human Rights worked out numerous recommendations, explanations and commentaries. The right “to adequate housing” is mostly understood as ensuring affordable housing (a housing price level that will ensure the fulfillment of basic needs in the field of housing, including the possibility of obtaining social support in cases when the family cannot ensure this fulfillment by its own means) and the availability of housing for disadvantaged and endangered social groups (seniors, children, physically handicapped individuals, victims of natural and other disasters etc).

In November 1988, the UN General Assembly adopted a principal document concerning housing titled “Global Strategy for Shelter to the Year 2000” where it is stated: “The right to adequate housing is generally recognized by the International community. All nations without exception recognize some form of obligation in the housing sector, such as the establishment of ministries or other institutes for housing issues, allocation of funds to the housing sector and creation of housing policies, programs, and projects. All citizens of all states, including the poorest ones, have the right to expect that their governments will pay attention to their housing needs and will adopt fundamental measures leading to the protection and improvement of housing...”. Similarly, the European Social Chart of the Council of Europe, adopted in 1961, the revised version of which was adopted in 1996 by a number of member States of the Council of Europe, states in Part I that “Member States adopt as the objective of their policies the attaining of conditions under which the following rights and principles will be effectively fulfilled”. Under number 31 of the rights and principles it is stated that “Every person has a right to shelter”. In Part II, Article 31 the States pledge to “adopt measures with the aim to support accessibility of housing of adequate quality in order to prevent homelessness and to implement measures securing affordable cost of housing for those who do not have sufficient financial means”.

The continued efforts to ensure the greatest possible degree of general and financial affordability of housing is especially important in relation to groups of the population with little social power, i.e. those who cannot themselves ensure adequate housing on the free housing market. The traditional market-oriented housing policy has at its disposal a number of tools that make it possible to work toward the fulfillment of the general and financial affordability of housing. These legal, economic, and financial tools are used on both the demand and the supply sides; on one side, they serve to approximate the housing costs and, on the other, to approximate the disposable income of households. The approximation of the supply and demand sides must always respect the adequacy of housing with respect to the needs of an actual household and its financial options.

Housing as merit good. Financial affordability of housing.

In connection with the above-described social perspective, housing is also often labeled as a “*merit good*”. A good is a merit one, when there is a collective consensus on its consumption by the entire society. In other words, society collectively believes that its consumption is inherently desirable and, therefore, unlike the consumption of other goods, must be supported. Merit good does not mean public good because housing does not have the basic characteristics of a public good. Merit good is a standard, a private good whose consumption should be supported by public authorities. Education is a frequently mentioned example of a merit good too. As has been stated above, the basic imperative of housing policies adopted by public bodies, based on the perception of housing from the social perspective, is to ensure the general availability of housing and also to ensure that such housing is financially affordable for socially needy households.

The financial affordability of rental and ownership housing is gradually becoming the standard form for the operational assessment of the housing situation in most developed economies. During the 1980s this term was popular among housing policy makers. Throughout the 1990s, an increasing number of housing researchers became engaged in the study of the concept and its methodology [Bramley, 1991, 1994; Hallet, 1993; Whitehead, 1991; Hulchanski, 1995; Hills et al., 1990; Freeman et al., 1997; Linneman and Melbolugbe, 1992; Maclennan and Williams, 1990]. The frequently quoted definition of the financial affordability of housing states that “affordability relates to securing a certain standard of housing (or various standards) for a price or rent, that in the eyes of any third party (usually a government) does not represent an unreasonable burden for a household income.” [Maclennan and Williams, 1990]. The financial affordability of ownership and rental housing is most frequently measured by indicators—rent-to-income and/or housing expenditures-to-income ratios—relating the housing expenditures that a household must make to acquire and maintain adequate permanent housing to the net income of the household. Special indicators are also used to measure the affordability of ownership housing (number of years of savings in order to acquire adequate ownership housing, lending multiplier, affordability index of the National Association of Realtors in the USA based on median income and median price of appropriate ownership housing, etc.).

1.3 Synthesis

Public (both state and municipal) housing policies are usually led by

- 1) the effort to eliminate market failures and ensure that the housing market functions more efficiently (“optimalize”), and
- 2) the effort to redistribute housing consumption or, to put it more precisely, to ensure affordable housing for all groups of society.

Although both these objectives are far from complementary (and may sometimes be contradictory), public authorities—through their housing policies and other types of policies—strive to eliminate monopolies and “internalize” externalities following from the imperfect functioning of the market and, at the same time, they introduce various restrictions, regulations, licenses, plans and especially various fiscal subsidies or exemptions for selected groups of households which do indeed curb urban development of cities and help prevent sudden variations in housing prices. Such strategies, however, may lead—and in reality often lead—to the erection of other market barriers and an even more imperfect functioning of the housing market. The double role of the public authorities as *rational economists* and *understanding paternalists* [Lux, 2002] may be illustrated from the point of view of the welfare economy in Figure A1.1 (*Edgeworth box*), which is in Appendix I.

The role of a public authority as *rational economist* derives in particular from the well-known definition of the optimum developed by Italian sociologist and economist Wilhelm Pareto. According to this theory, the market finds itself in an optimum if there is no possible allocation of goods other than the existing one (another manner of production, other legislative environment, etc.) that could increase the utility of one of the participants without decreasing the utility of the other participants. If the situation on the market precludes any public inference that could increase the utility of one without decreasing the utility of another, we talk about a Pareto optimum (also the highest economic efficiency). If, on the other hand, the total utility could increase without decreasing the utility of any of the actors, then the process of “improvement” is called optimization, a Pareto improvement. Such an improvement involves, for example, the elimination of monopolies from the housing market or ensuring greater information dissemination among actors entering the market, i.e. interventions leading to the elimination of market failures.

The public entities, however, also enter the housing market as *understanding paternalists* and come with a certain concept of a welfare state. It is clear that the scope and type of public interventions depend largely upon which type of welfare concept the particular administration favors. In the case of libertarians and liberals (right-wing parties) it is more likely that they will consider housing to be primarily a private issue and will leave responsibility for ensuring housing to the individual citizen or his/her family. In the case of socialists and communists, on the other hand, it is more likely that they will consider housing to be a public matter and therefore the responsibility for ensuring housing will be placed on the shoulders of the State, municipalities, and public institutions. (The potential conduct of a public authority “headed” by libertarians, utilitarians, egalitarians, and socialists is briefly outlined in Appendix I). A majority of the politicians will most likely consider housing to be a matter of both public and private interests and, therefore, in any legal system of a developed Western country (even very liberal ones) we will find housing policies aimed at ensuring greater

equality in housing consumption (i.e. we will find public authorities in the role of the *understanding paternalists*). The dual role of public housing policy as *understanding paternalist* and *rational economist* is described in the Western expert literature on housing policies also as policies directed towards the *economic efficiency* of market functioning on the one hand, and towards the *social effectiveness (equity)* in market distribution of housing services on the other. Ensuring the economic efficiency of market functioning rests in the elimination of market barriers, in Pareto optimization; ensuring social effectiveness (equity) rests in the redistribution of consumption. “It is possible that a ‘*trade off*’ situation may arise between efficiency and equity” [Barr, 1993: 78] and in reality such a situation frequently occurs.

While efficiency is defined through the Pareto lens³, effectiveness is understood as the degree to which the originally defined goals of state intervention are met, i.e. whether the funds were actually spent where they were allocated and whether those to whom they were intended were actually helped. The question of the effectiveness is not left solely to the will of the policy-makers or the governments, who often do not define the intention of the intervention at all. *Welfare economics* distinguishes between “vertical” and “horizontal” effectiveness. Vertical effectiveness measures the extent to which the subsidies (a housing allowance, a social flat) are actually allocated to those who really need help (i.e. mostly to low-income households). Horizontal effectiveness measures whether any of the needy is excluded from the program. The reason that a social group is “left out” of a program may lie in the fact that the program has been set up badly or the potential claimants are badly informed (or may be afraid of potential social stigmatization).

“Almost any conceivable intervention in the economy will make some better off and others worse off. There are few pure Pareto improvements possible. However, there are likely many interventions after which those who are better off could compensate those who are worse off and still remain better off.” [Fallis, 1985: 123]. In connection with ensuring efficient market functioning (achievement of an optimum situation), many liberal economists recommend that the governments should define only the basic legislative framework for the exchange of goods, ensure the protection of ownership rights, and refrain from other types of interventions (Adam Smith’s *invisible hand of the market*). In such cases, however, it is presupposed that the markets are perfectly competitive (there are no monopolies, monopsonies, oligopolies), there are no externalities, no public goods, no insecurity (imperfect knowledge), and no macroeconomic problems related to inflation, unemployment, and economic growth. If a single one of these conditions is not met, the market is not able to achieve the optimum, and potential interventions may bring about Pareto optimization.

2. PUBLIC AUTHORITY AS AN UNDERSTANDING PATERNALIST

In addition to the sociological theory, there are several economical/political science explanations as to why public authorities behave not only as *rational economists*, eliminating market failures and externalities, but also as *understanding paternalists*. According to Downs [1957, in Barr 1993], “the poor”, acting either on behalf of themselves or in a coalition, take advantage of their right to vote to ensure a rational interest, i.e. to increase their wealth through a redistribution from “the wealthy” to “the poor”. According to Tullock and the presuppositions of the *rational choice* school of thought politicians behave selfishly and with the expectation of expanding their power, status, or income, they strive to maximize the number of potential electoral votes for themselves in the next elections. And because the income distribution is unequal in most countries (there are relatively few people with high incomes but many people with low incomes), politicians maximize the number of electoral votes by supporting the redistribution from the wealthy to the poor. Total property equality will not occur only because:

- there is a certain fear among politicians of the consequences of complete property equality on the efficiency of market functioning (e.g. nationalization of enterprises, high taxation);
- the minority of wealthy people usually concentrate relatively great influence on social and political events (theory of elites) and manage to defend themselves against certain pressures;
- many poor people also “want” a certain degree of property inequality to remain since they also wish to one day become lucky enough to be wealthier and more powerful than others. They never completely relinquish this possibility.

Another theory of the “redistribution imperative” is the *voluntary redistribution theory* proposed by Hochman and Rodgers [1969, in Barr 1993], that documents it is in the rational interest of every “rich” person to redistribute the wealth in the direction of “poorer” fellow citizens and therefore the “rich” do so—not under pressure from the State, but voluntarily. The theory is based on the assumption that there are always several externalities on the market (the housing market displays such characteristics, especially housing in blocks of flats) and, therefore, the consumption utility of each individual is significantly influenced by the consumption of others. Thus, the consumption utility of the “wealthy” is influenced by the degree or form of consumption of the “poor”. Moreover, redistribution is justifiable with respect to quasi-efficiency. Let us assume that there are only two citizens, wealthy W and poor P . In the simplest version their own utility functions (U) are only influenced by their own incomes (Y):

$$U_W = f(Y_W)$$

$$U_P = f(Y_P)$$

Now let us assume, though, that the amount of the utility of the wealthy citizen will depend not only on his own income but also on the income of the poor citizen:

$$U_w = f(Y_w, Y_p)$$

Then redistribution will follow from rational conduct of the wealthy person and will last until:

$$\frac{\partial U_w}{\partial Y_p} - \frac{\partial U_w}{\partial Y_w} > 0$$

i.e. the moment when an increase in the utility of the wealthy person's consumption following from the increase in the poor person's income by a unit equals the fall in the wealthy person's utility due to a decrease in his income by the same unit as a consequence of redistribution towards the poor person (∂ is the mark for partial derivation). The model is sometimes criticized, especially for neglecting the phenomenon of *free riders* who always appear if there are not only two, but n other, people. In addition to the theory presupposing the purely rational and "selfish" behavior of social actors, sociological theories of ethics and social solidarity also study the reasons for the redistributive aspects of public authorities' behavior. These theories emphasize the aspects of values, emotions and norms in individual and social lives that economists tend to neglect. Regardless of which social-economic theory the grain of truth can be found in, the fact is that the redistribution of housing consumption has become the axis of housing policies for most modern states and its goal is to ensure the affordability of housing for all social groups. There is no fundamental difference between central and local government housing policies from the theoretical point of view: Both elected entities behave as rational economists and understanding paternalists and both of them are influenced by the welfare concept accepted by leading political representation. Though some local governments in the CEE countries try to adapt such housing policy based purely on economic calculations (the quick privatization of all public housing) this will soon appear as an unsustainable approach due to the substantial decrease in housing affordability for the lowest income social groups in particular municipalities. The differences, however, appear when analyzing the particular housing policy instruments and power.

2.1 Public Housing Policy Instruments

In principle, there are two ways for public authorities as *understanding paternalists* to ensure (through the redistribution of wealth) greater equality on the housing market and, thus, ensure higher financial affordability of housing for low- and middle-income

groups of households: Income-tested cash allowance increasing the income of needy households (housing allowance), or action lowering the cost of housing, consequently decreasing the expenditures of needy households (social housing operation subsidies, rent regulation). With respect to the efficiency of both types of redistribution (Pareto lens and economic theory) it appears that the cash allowance is more efficient than an allowance aimed at decreasing the costs of housing. This comparison is shown Figure A1.2 (Appendix I) which captures the impact of both types of state intervention on a needy household.

In reality, however, the situation may not be quite as simple. Figure A1.2 captures a situation where one household makes a decision between two types of goods—in practice there are many heterogeneous households that make decisions among a wide range of goods (also work and leisure time). Moreover, the goal of wealth redistribution is usually not merely to achieve the highest possible efficiency of state intervention but also to achieve greater effectiveness of the intervention, i.e. the means allocated for increasing housing consumption must actually be used for housing. In the case of a public authority as *understanding paternalist*, effectiveness is often more important than efficiency and, therefore, we can imagine a situation in which the public authority opts for a less efficient solution but the aid really ends up where it should.

Notice, for example, that in the case of intervention directed toward decreasing the cost of housing, the household in Figure A1.2 would consume more units of housing services than if a cash allowance were provided, although the cash allowance would move the household to a qualitatively higher level of total consumption, a higher level of total utility. If the objective of public intervention is to increase housing consumption (e.g., improve the housing conditions) and not so much to increase the consumption of all other goods (to increase the living standard as such) and if the intervention is to be truly efficient, i.e. not to result in an increase in the consumption of other goods (let us presume housing as a merit good), then of the above-mentioned possibilities the public authority would tend to opt for an intervention decreasing the cost of housing (although a cash allowance may be made contingent upon various factors in order to prevent the “abuse” too).

In reality public interventions aimed at decreasing housing costs may, for political reasons, be preferred over a cash benefit as a minimum level of housing consumption is often easier to ensure and monitor by supply-side subsidies (construction of social flats) than through demand-side subsidies (housing allowance). Similarly in education, as well as being more transparent and politically acceptable, it is easier to ensure that the poor receive free basic education than to pay an allowance to the poor so that they may pay for their education. In order to support this fact using a formal analysis, let us expand the argument concerning the interweaving of utility functions of the rich and the poor which we have used above. Let us assume now that the amount of the total utility (U)

of wealthy citizen W is given by his income and the consumption (C) of his poor fellow citizen P . Let us presuppose this time that the utility of the rich person is influenced by the consumption of the poor person rather than by the poor person's income:

$$U_W = f(Y_W, C_P)$$

From the point of view of the wealthy citizen (i.e. based on his/her evaluation, his/her own values and norms), the consumption of poor citizen C_P may be broken down into "good" consumption ($C_{P_{good}}$) consisting of, for example, the consumption of quality housing, and "bad" consumption ($C_{P_{bad}}$) consisting of, for example, the consumption of alcohol, tobacco, etc. Thus, we would transcribe the utility function of the rich citizen in the following manner:

$$U_W = f(Y_W, C_{P_{good}}, C_{P_{bad}})$$

If the rich citizen decides to redistribute resources toward a poorer fellow citizen, the rich citizens will naturally strive to direct the resources exclusively to good consumption, which a simple cash benefit does not necessarily guarantee. In the case of a simple cash benefit, the poor citizen may support what the rich citizen may view as bad consumption, which, in turn, would decrease the total utility of the rich citizen. Therefore, redistribution through intervention aimed at decreasing housing costs (e.g. the support for the construction of social housing) that, from a purely economic point of view, is more expensive and less efficient, offers the rich citizen a better guarantee that his/her money will be used for good consumption by the poor fellow citizen and thus contribute to an increase in his/her own total utility. Similarly, even the poor citizen may, under certain conditions, favor supply-side support over a cash allowance because he/she will perceive such a situation as less stigmatizing than to stand in line for the payment of social benefits.

In conclusion, the following are fundamental public housing policy instruments aimed at securing greater financial affordability of housing:

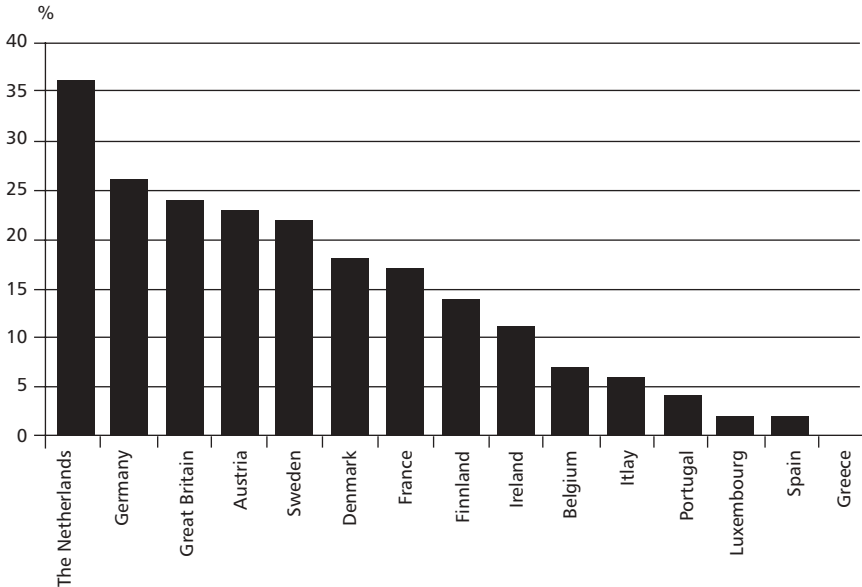
- 1) Rent regulation;
- 2) Allocation and rental policies in current social housing;
- 3) Support for the construction of new social flats provided by municipalities or non-profit housing associations;
- 4) Housing allowances;
- 5) Tax relief and interest subsidies for ownership housing;
- 6) Housing subsidies for special social groups (social care housing for elderly, barrier-free housing for the handicapped, shelter housing for the homeless).

Social housing (representing the subsidies aimed at decreasing the costs of housing) and housing allowances (representing the subsidies aimed at increasing the income of households) form the pillars of public housing policies in most of the developed countries. Though central and local housing policies are very closely inter-related, social housing operations (construction, allocation, rent policy) form rather a portion of the local government housing policy while the main responsibility in the case of housing allowances lies generally within the central government housing policy.

In almost all Western European countries we can find a housing sector called *social housing*. Although there are great differences in the individual systems (the housing policy in the European Union falls under the jurisdiction of member States), social housing is generally understood as a sector of rental housing in which public bodies of the state or municipalities strive to ensure a general equilibrium in the rental housing market. They provide dignified and suitable housing to the needy households who cannot otherwise afford housing on the free market due to their low income or other reasons. The rents in social rental dwellings are usually lower than the market rents for similar dwellings while the construction and sometimes operation of social flats is supported financially by public authorities in one way or another, such as by creating various fiscal benefits for investors, providing grants, interest subsidies, qualified public loans, or guarantees for construction loans raised on a free financial market. Investors and operators of social housing may be municipalities represented in municipal housing associations, housing cooperatives, non-profit housing associations, or private owners (only in Germany). Figure 1.1 shows the share of social housing on total housing stock in the EU member States.

An income-tested rent/housing allowance is a very important instrument of housing and welfare policy in European Union countries. With respect to housing policy, this is a demand-oriented instrument that directly influences the demand for housing. Indirectly, it may affect the supply side of a housing market. Increasing the disposable income of the population, by providing an allowance, it stimulates demand based on purchasing power. The natural reaction to an increase in demand is a corresponding increase in the supply. Income-tested housing allowances were implemented in the developed Western countries beginning in the middle of the 1960s (Germany 1965), but especially during the 1970s (Great Britain 1972, France 1977). In the current EU, the income-tested housing allowance is used in all countries except Italy and Spain. The basic principle of housing allowances is to provide entitled households from the rental or ownership housing sectors a sum usually amounting to the difference between the actual and normatively settled level of household burden by rental/housing costs, defined as the share of housing expenditures from total household income. When calculating housing allowance, three factors in particular are taken into account: Income; housing expenditures; and the number of people in a household. Strict income testing guarantees high social effectiveness of a given program.

Figure 1.1
Share of Social Housing within Total Housing Stock, EU [%]

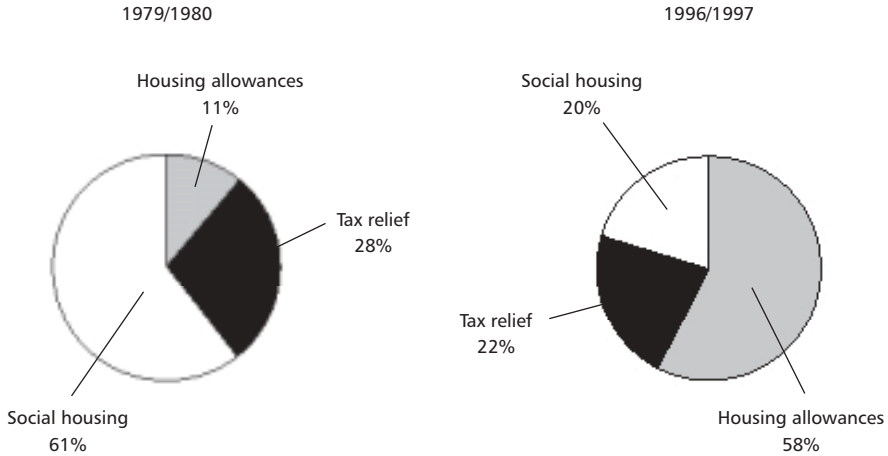


SOURCE: European Observation Unit for Social Housing, CECODHAS 1996.

2.2 Trends in Public Housing Policies in EU Countries

No government has ever questioned the important role of the public sector in ensuring greater equality in housing consumption (role of *understanding paternalist*), achieved especially through the use of instruments aimed at increasing the affordability of housing for low- and middle-income households. Even so, in most EU countries in the 1980s and 1990s, we saw dynamic reforms of housing policies, massive cuts in public housing expenditures and a move away from the relatively expensive social housing construction and operation support (also “supply-side subsidies” or “bricks-and-mortar subsidies”) toward less costly support through income-tested housing allowances (also “demand-side subsidies” or “subsidies per head”). This move away from supporting the supply towards supporting the demand is most visible in Great Britain, The Netherlands and Sweden, that is—and this is very important—in those EU countries with the highest share of social housing on total housing fund. The following Figure 1.2 shows clearly the change in the housing policy between the end of the 1970s and the end of the 1990s in Great Britain.

Figure 1.2
The Percentages of Individual Types of Support Out of
the Total Housing Policy Expenditures in Great Britain



SOURCE: Garnet (2000: 68)

Significant cuts in budget expenditures allocated for the construction and administration of social rental stock were caused by several factors:

- Public budget deficit and the need to decrease budget expenditures (support of demand is always less costly for public budgets than supply-side support);
- The need to comply with the strict Maastricht criteria, concerning the degree of the state budget deficit, upon entering the European Monetary Union;
- Low economic efficiency of the existing operators of social housing, unjustifiably high administrative costs, inflexibility, inefficient management;
- The attempt to return to ownership and rental housing construction private capital investors pushed out by post-war public housing construction;
- A crisis of the welfare state concept evident in the economic practice of the most “generous” countries by the brain drain, low private investments, growing unemployment, and inflation;
- Political will to give priority to ownership housing over rental housing;
- The conviction that the problem of post-war housing shortage is no longer a problem.

As is clearly apparent from a 1994 OECD report analyzing the trends in the management and functioning of public bodies in developed countries, more evident

efforts are being made to ensure public resources are used more efficiently since social objectives are no longer categorically superior to the calculation of the economic efficiency of public interventions. In other words, the instruments aimed at increasing the affordability of housing are subject to far more extensive economic criticism than before. In the period between the two *United Nations Conferences on Human Settlements HABITAT* in 1976 and *HABITAT II* in 1996, in which policy makers from almost the entire world took part, the perception of State responsibility in the field of housing completely changed. Generally, we can summarize this shift in the motto: “from housing supply to enablement”. The public authorities should no longer be seen as the providers but as the enablers. Civic society, the desired form of democratic countries, thus places far more emphasis on decentralized forms of self-administration as well as on non-governmental organizations, the private sector and civil movements. According to the *Global Strategy Until 2000* from 1988, the State should focus on the creation of legal and economic frameworks for citizens, non-governmental organizations, and the private sector so that they all can ensure housing and related services more efficiently than the State ever could. Changes during the 1980s and 1990s in the understanding of the housing policy and the role of individual actors on the housing market are often formulated as “from housing needs to housing rights”.

Public and independent audit institutions in many developed countries (Great Britain, the Netherlands and France) have developed sets of *performance indicators* measuring selected and comparable activities of municipalities and independent operators of social housing with the goal of perfecting the management in view of a more “market oriented” approach to social housing tenants. Some of these indicators in Great Britain are as follows:

- Coefficient giving the percentage of empty flats in the total housing stock per municipality (with the exception of flats intended for reconstruction or those where reconstruction is underway);
- Average rent loss due to vacant flats as a percentage of the potential rent roll of a given municipality;
- Ratio of average costs for flat maintenance to absolute costs and as a percentage of the total rent;
- Average loss resulting from rent arrears as a percentage of the potential rent roll in a given municipality;
- Average administrative costs per housing unit (and average number of people working in the housing stock management per housing unit);
- Average number of re-rented flats (turnover) and the average time before a flat is re-rented after vacancy (the turnover does not include flat exchanges but only “actual” new lease contracts);
- Average amount of time required to perform emergency, urgent and regular repairs;

- Satisfaction with the management and maintenance of dwellings among tenants based on regular obligatory sociological surveys conducted among tenants.

In Great Britain, municipalities are obliged to pool required information (in addition to this, they are also obliged to work out a detailed financial report on the use of allocated money and the debt) and to send the final calculations of the above-mentioned indicators to the *Audit Commission*, a state control body that has the power to inspect and verify the accuracy of such data. When making decisions on the allocation of state budget resources to municipalities for the next year, poor efficiency results lead to significant subsidy cuts. Similarly, British independent operators of social dwellings, the housing associations, must work out an annual general report containing all of the above-mentioned performance indicators. This report then serves as an important basis for decisions made on the allocation of capital grants intended for the rehabilitation or construction of social dwellings from the resources of the *Housing Corporation*.

Over the past few decades, the absolute scope of public finances allocated for the construction of social housing has decreased significantly and the monitoring of economic efficiency has become stricter. Furthermore, in many countries, newly adopted legislation has given a dominant position in the sphere of new social rental construction to independent operators of social dwellings (housing associations) that up to this point had played only a marginal role. These operators function as non-profit, yet financially independent and fully responsible, private legal entities that must carefully consider the costs and yields of potential projects. In the Netherlands (the EU country with the highest percentage of social housing), where these operators have basically become the exclusive operators of social dwellings, housing associations were completely cut off from state resources in the mid-1990s. In the future, housing associations are to cover the costs of their “noble” activities solely from private capital. Housing associations in Great Britain are also increasingly forced to make use of private capital. In the 1990s, they became the exclusive developers of new social flats (although a majority of social housing in Great Britain is still managed by municipalities). The share of total expenditures for new social housing construction covered by grants from the Housing Corporation funds (the state budget, in fact) fell in the course of the 1990s from 90% to 50% of total construction costs.

Even in Sweden the conservative government launched a tax reform in the 1990s related to a sharp cut in public subsidies for social housing that forced public operators of social dwellings (municipalities) to transfer the burden to the tenants, thus making housing less affordable. Housing expenditures-to-income ratio in Sweden is the highest among EU countries and it grew the fastest in the 1990s. Social housing reform in France has led to an expansion of the semi-public/semi-private legal form of housing associations called OPAC (to the detriment of the completely public form) that have, on one hand, obtained greater power because of their position as a private company but, on

the other hand, now receive fewer public funds. All these changes have been propelled by a single objective: Increase the efficiency of public expenditures while preserving the same basic goals of the housing policy. These housing policy goals are still dominated by that of ensuring the affordability of housing for all groups of citizens.

If the public authority is involved at all in the field of social housing, it is usually only after a critical analysis of the *efficiency* and *effectiveness* of potential subsidies. The main research questions used for the evaluation of the effectiveness and efficiency of different housing policy instruments are listed in Appendix II.

3. THE ROLE OF LOCAL GOVERNMENTS IN HOUSING POLICY IN EU COUNTRIES

The trend toward a decentralization of responsibilities in the sphere of housing policy has been apparent in many EU countries during the past two decades. Generally, decentralization of power from central to regional/local government has two forms: absolute and relative [Sýkora, 2000]. The absolute form consists of a direct transfer of competence from the central to the local level and includes the strengthening of the power of local government in the sphere of existing social housing (allocation rules, rent setting/pooling), new rental housing construction, land policy, regional planning, etc. The relative form is closely connected with the objective of decreasing the overall public supply side subsidies, leading to lower public authority interference with free housing market relations. This “deregulation of the public sector” concerns mainly central government policies. By weakening the role of the central government, the position of local/regional levels of public administration grows proportionately. “Housing ceases to be perceived as a problem of national significance. It is perceived rather as a local or specific problem.” [Sýkora, 2000, 11].

In EU countries, local governments are usually responsible for securing affordable housing for households that would not be able to acquire housing on the free market. In some countries (Great Britain, Sweden, Germany, Ireland), local governments are directly involved in social rental housing construction and operation (public housing). Yet in some cases, (the Netherlands, Great Britain, France, Ireland) countries cooperate with independent social landlords (housing associations/corporations, housing cooperatives, and in Germany also private investors) to find a consensual approach to social housing allocation and rent setting. Although independent housing associations are currently the main developers of social housing in Great Britain, municipalities must approve housing association projects—otherwise the chance of obtaining a grant from the Housing Corporation is very low. In Denmark, municipalities hold a majority on the boards of non-profit housing corporations and have the right to approve and audit budgets of housing cooperatives, both of them operating in the sphere of social housing.

In France, representatives of local authorities are guaranteed a position on the boards of OPHLM (main providers of the French social housing) by law and thus have direct executive authority. In Germany, municipalities may conclude different forms of public-private partnerships for new social housing construction and through them are directly involved in social housing operation (used mostly in the Eastern Lands).

In almost all EU countries, municipalities provide land for new social housing construction; municipal land zoning/policy influences not only the scale of social housing construction in a particular municipality, but also the competence in allocation and management of social housing. If land is provided for free, independent social landlords must generally meet specific conditions set by municipalities in the agreement.

Concerning the competence in the sphere of social dwelling allocation policy, Ghékiere (1992) distinguishes three types of competence distribution between central and local government apparent in EU countries:

- 1) The criteria for claiming social housing are set at the national or regional levels and individual operators of social housing (municipalities, non-profit organizations, housing associations, and private investors) are left with a rather small space for the application of these criteria in their own allocation policy. Municipalities, like the other social landlords, must strictly observe the centrally defined criteria. In countries with this relatively centrist form of competence distribution, the law defines the maximum income ceiling for those wishing to qualify for a social dwelling claim. The “centrist” approach is typical of Luxembourg, Germany, Belgium (regional act), France, and Italy, for example.
- 2) Municipalities are given the freedom to formulate their own allocation policies, which, however, must comply with the more general provisions set by the central government. These central rules are limited to defining general priorities, such as the target groups (the hierarchy of social neediness). The form of allocation and more “precise” criteria (income ceilings) are not defined at the central level and individual municipalities must clearly formulate and publish their allocation policy both for their own rental sector and in cooperation with independent housing associations for the remaining social housing stock. This allocation policy usually reflects the specific social problems in a given area (e.g. in allocation, preference is given to the unemployed or to single mothers with children, etc.). This approach is typical of the UK or Ireland.
- 3) With respect to the allocation of competencies, the Netherlands occupies a somewhat exceptional position. In the course of the 1990s the most important social housing operators in the Netherlands, housing associations, gained great autonomy. The rules for managing the social sector are defined in the *Housing Act* adopted in 1993. The binding conduct of housing associations is defined “rather vaguely” [Priemus, 1999] and is based only on the requirement of hous-

ing allocation to the socially needy portion of households, defined in 1990 as the 40% of households whose income is lower than the average Dutch household income. The allocation policy is either the result of partnership agreements between a municipality and housing association, or falls strictly within the power of housing association. If municipalities want to influence the allocation policy of housing associations, they have to “offer something” in exchange, e.g. must offer land for construction free-of-charge.

In most EU countries (with the exception of the Netherlands) municipalities have the right to allocate either all the new social dwellings within their territory (in Germany three candidates can be nominated by the municipality, of which one must be chosen by a particular social landlord) or to allocate a significant part thereof (even though they are constructed and operated by the independent social landlords). This right (or reservation quota) is set out by legislative acts in France, Germany, Sweden, Denmark, Great Britain and all other countries where municipalities are not exclusive social landlords. Allocation occurs in this case, either in the form of a direct allocation of a flat by the municipality (Denmark, France, and Italy) or in the form of a nomination of candidates (Great Britain, Germany, and the Netherlands). In Denmark, for example, the law reserves a quota of 25% of vacated or newly constructed social dwellings owned by other than municipal social landlords for municipalities; in Italy 15%, in Great Britain 50%, and in France 30%, is reserved for the State (represented by the Prefect in a given department) and 20% for municipalities. The reservation quota can always be extended through a mutual agreement following cooperation between municipalities and housing associations (municipalities can offer land free-of-charge for social rental housing construction to housing associations). This is obligatory in the Netherlands if municipalities wish to influence the allocation policy of social dwellings at all.

Municipalities usually administer the waiting list of applicants and use different point systems to evaluate the social needs of applicants (with the exception of Sweden where applicants are ranked chronologically according to the date of application). In some countries, municipalities provide additional subsidies or guarantees for social housing construction to independent social landlords (Germany, France). They also influence local housing conditions through generally applied activities such as territorial/urban planning, issuance of housing construction permits, land zoning and different forms of support for private housing construction (infrastructure, in Germany support for private rental housing serving for social purposes, etc.). The construction and provision of temporary shelters (for homeless people) or special housing (for the handicapped, elderly, etc.) also ranks among common basic municipal activities in the sphere of housing.

In CEE countries, new social housing legislation has been developing very slowly at the central level (with the exception of Poland) and, in most cases, all the responsibilities have simply been transferred to the municipal level, mostly in connection with

the transfer of dwellings from state to municipal ownership at the beginning of the transition. Therefore, local authorities faced the problem of housing being financially less affordable on their own and could only rely on partial financial assistance from the State. In turn, they very often obtained full competence in the sphere of public housing allocation, setting rent prices in vacant public dwellings, the scale and method of the privatization of public housing, the use of rental income and new social housing construction. The combination of old anachronisms (central legislation on non-targeted rent regulation and high level of tenant protection, “quasi-ownership” character of public rental housing, interference of central government with municipal housing privatization through centrally defined “right to buy”) and unrestricted freedom (allocation rules, rent setting in vacant dwellings, use of privatization income, etc.), combined with sharp cuts in state subsidies for new social housing construction, has created a situation in which municipalities have very limited space for an active local housing policy. At the same time, they have very different and individual approaches to housing policy that, in turn, differ significantly from municipality to municipality within a single country and even within a single district.

4. THE LOCAL GOVERNMENT AND HOUSING PROJECT

The *Local Government Policy Partnership Program* is a cooperation between the *Department for International Development* (DFID), the UK and the *Open Society Institute Local Government Initiative* for the period of 2000–2003. The objectives of this donor cooperation is to produce comparative policy studies on selected local government issues. Our goal is to respond to country needs and to make available reform experiences of Central European countries for the broader region. Beneficiaries of the project are national government ministries, local government associations, research and training institutions and individual local authorities. The partner countries are the Czech Republic, Hungary, Poland and Slovakia. The project invites experts who form country teams with an appointed manager. The project manager and editor is responsible for the preparation of comparative policy studies. Three comparative studies are published annually.

In 2000–2001, the selected policy areas were: Regulation and competition of local utility services; education finance and management; public perception of local governments. In the second year of the project the Program focused on the relationship between decentralization and regional development.

The following countries were selected for the purpose of the *Local Government and Housing Project*, under which this publication has been prepared: Bulgaria, the Czech Republic, Estonia, Poland, Romania and Slovakia. Each country team prepared the report on the situation in their country and the content of the reports has been standardized. Attention was paid to the comparison of different local government solutions

regarding the issue of a decrease in housing affordability for low- and middle-income households and to their critical evaluation from the point of view of economic efficiency and social effectiveness. The reports, thus, do not offer only simple descriptions of current situations but also an evaluation (though sometimes limited) of activities and programs, conclusions and policy recommendations on the background of the concept of social effectiveness and economic efficiency. The first part of the reports provides a brief description and evaluation of state housing policies. The second, most important part, deals with local government housing policies and assessment from the point of view of efficiency and effectiveness. The conclusion and policy recommendations always form the final part of each country report. The text of reports is accompanied by case studies of excellent practices that could serve as inspiration for both the local and central policy makers (in framed text boxes).

Some information is based on results from the questionnaire research *Local Government and Housing Survey* (LGHS) conducted in the selected CEE countries especially in connection with this project. All municipalities with populations higher than 5,000 inhabitants (in Poland, higher than 20,000) in each country were asked to fill out a short questionnaire on municipal housing policy objectives and management of municipal housing (rent arrears, voids, re-lets, etc.). Besides the need of obtaining basic information about local housing policies, we were inspired to measure the amount of social landlord housing activities using performance indicators. The full version of the questionnaire module used in all of the selected CEE countries is in Appendix III. The questionnaires were filled in either by the Mayors, the Deputy Mayors, those members of the Municipal Councils who were responsible for municipal housing policy or heads of special departments responsible for preparation of housing policy in a particular municipality. Table 1.1 shows the total rate of return of survey questionnaires in all the selected CEE countries.

Table 1.1
Local Government and Housing Survey
—Rate of Return

	Bulgaria	CR	Estonia	Poland	Romania	Slovakia
Rate of return	30.7	33.6	46.0	24.5	28.8	54.7
N (number of municipalities in sample)	43	89	17	56	76	77

The municipalities were asked to fill in the questionnaire even after the deadline (if the rate of return was lower than 50%). Slovakian experts attained the best results. As an under-representation of small municipalities occurred in almost all countries, the

data was, for the purpose of comparison, weighted to assure a realistic representation of municipalities according to their size.

Moreover, another weighting of results was applied for the purpose of public housing management comparison (performance indicators). When we discussed the topic during the project, we realized the simple weighting of data would not provide us with a real picture in a particular country because it showed just the weighted average “per municipality” (e.g. what was the average number of re-lets in municipal housing per one municipality). However, municipalities have different size populations and numbers of re-lets in a municipality with only 5,000 of inhabitants cannot be properly compared with the same number in a municipality of 300,000 of inhabitants. Therefore, we decided to also calculate a weighted country average “per inhabitant” using the following equation:

$$\frac{\sum_{i=1...N} i \times pop}{\sum_{i=1...N} pop}$$

Here, i means particular performance indicator for a particular municipality, pop means number of inhabitants (population) in a particular municipality and N means number of municipalities in the LGHS data sample. Results of the survey could now be presented in the country reports in three forms: As *simple average “per municipality”* (on non-weighted data file); *weighted average “per municipality”* (on weighted data file after basic weighting); *weighted average “per inhabitant”* (as calculated according to the above-mentioned equation). The authors could decide individually which of the above-mentioned forms of results presentation they will use in their country reports (based on particular results in their country). In the summary chapter, the complete and comprehensive comparison is provided for all the selected CEE countries.

The final chapter of this book summarizes main information and conclusions raised from the country reports, provides general comparisons of the situation in all the selected CEE countries and offers general housing policy recommendations. Here the reader will find the main information gathered from the project.

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APPENDIX I

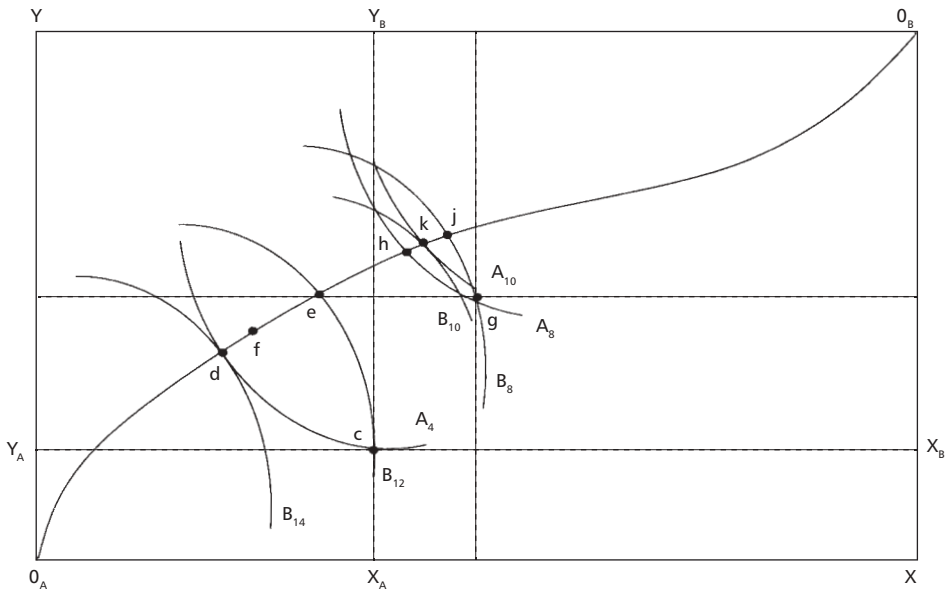
Public housing policy

The double role of the public authorities as *rational economists* and *understanding paternalists* may be illustrated from the point of view of the welfare economy in Figure A1.1 (*Edgeworth box*), which is based on the analysis of the welfare function W :

$$W = W [U_1 (x_{11}, x_{12}, \dots, x_{1m}), U_2 (x_{21}, x_{22}, \dots, x_{2m}), \dots, U_n (x_{n1}, x_{n2}, \dots, x_{nm})]$$

where U_1 through U_n indicate the level of total utility given by consumption x_1, \dots, x_m of goods by individual n citizens. Figure A1.1 shows a situation in which there are only two consumers in society (A and B) and two consumer goods (X and Y); the consumption of good X by consumer A is captured on axis $O_A X$ and by consumer B on axis $O_B X$, and the consumption of good Y by consumer A on axis $O_A Y$ and by consumer B on axis $O_B Y$. The total consumption of consumer A is then measured from the starting point O_A and the total

Figure A1.1
Distribution of Consumption of Two Goods
between Consumers A and B



SOURCE: Barr (1993, 74)

consumption of consumer B from the opposite starting point O_B . Curves A_n create indifference curves of consumer A (i.e. the combination of goods X and Y bringing consumer A the same utility), curves B_n create indifference curves of consumer B . The “contraction curve”, connecting points O_A and O_B , indicates all combinations of consumption of X and Y where the value of the marginal substitution in consumption of goods X and Y is the same for both consumers (i.e. it connects points where the indifference curves of both consumers meet and any movement outside this curve means a worsening of the situation for at least one of the consumers).

Let us assume, for example, that the initial division of consumption of goods X and Y is located at point c in Figure A1.1 where consumer A consumes X_A units of good X and Y_A units of good Y and consumer B consumes X_B units of good X and Y_B units of good Y . It is obvious that consumer B is far richer than A , since he may consume far more goods X and Y than consumer A . If, through market improvement (intervention of public authorities), the division of consumption moves from point c to point d , consumer B becomes “better off” (he moves up to a higher indifference curve from B_{12} to B_{14}) and consumer A does not become “worse off” (since he remains on the same indifference curve A_4 , i.e. he achieves the same total utility). The shift from point c to point d constitutes a Pareto improvement. Similarly, a shift from point c to point e also constitutes a Pareto improvement and, this time, the poor consumer A becomes “better off”; consumer A arrives at a higher indifference curve and consumer B remains on the same indifference curve B_{12} . Shifts from point c to points d and e always lead to greater allocation efficiency, a more optimal division of goods, while points d and e are equal with respect to pure efficiency (i.e. from the point of view of a public authority as *rational economist*). If public authority performed only the role of *rational economist*, its role would end by improving the efficiency of market functioning (e.g. elimination of a monopoly) leading from point c to point d or e .

The public entities, however, also enter the housing market as *understanding paternalists* and come with a certain concept of a welfare state. Since there are several concepts of the welfare state, let us outline briefly the potential conduct of a public authority “headed” by libertarians, utilitarians, egalitarians, and socialists.

Libertarianism: For libertarians the only way to improve social welfare is a Pareto improvement, i.e. a shift from point c to any point on the contraction curve (but not shifts along the contraction curve as such). Any pressure or policy leading to a further redistribution of wealth (e.g. a shift from point d to point k) is not desirable from a traditional liberal point of view (English political economy of the 18th century) or from the neo-liberal point of view represented by Hayek and Friedman in the second half of the 20th century.

Utilitarianism: The objective of utilitarians is to maximize the total utility of everyone. Thus, like libertarians, utilitarians would support the shift from point c to any point on the contraction curve. Unlike libertarians, however, some utilitarians consider

the utility to be a cardinally measurable variable (i.e. one that can be expressed in monetary or other measurable units). If both consumers A and B have an identical marginal utility of income functions (i.e. an income growth by an unit brings both of them the same growth in utility) the starting point for seeking the optimal distribution of goods is point g where both consumers consume the same amount of goods X and Y . A Pareto improvement is possible from point g , to point k , where the two consumers would be located on the same level of measurable utility functions (indifference curves A_{10} , B_{10} , i.e. each of them would achieve 10 units of measurable utility); consumption distribution corresponding to point k on the contraction curve would, thus, according to their perception of the welfare state, correspond to the ideal. If, however, the marginal utility of the income functions differed among individual consumers, the optimum allocation point would be different.

Rawls's egalitarianism: According to Rawls (1995), goods should be distributed based on a rational social justice while assuming the existence of a "veil of ignorance" concerning the future position of all society members on the market. Distribution of goods should be adjusted as long as each new structure improves the total utility of the poorest member on the market. Rawls's theory of social justice is based on the imperative to improve the situation of the most disadvantaged person in the market (therefore, a shift from point c to point d would not be desirable, although it does constitute a Pareto improvement). The shift from point d to point k is desirable from the point of view of Rawls's theory, although it does not constitute a Pareto improvement because the "poorer" consumer A benefits to the detriment of the "richer" consumer B . Like some utilitarians, egalitarians would consider the distribution corresponding to point k to be ideal.

Socialism: According to the basic thesis of socialism, all goods should be allocated completely equally. Like Rawls, socialists consider any shift towards point k to be desirable although it does not constitute a Pareto improvement and the situation of one may improve to the detriment of another.

Housing Policy Instruments

Let us assume that the preference of a needy household is reflected in indifference curves U_1 , U_2 and U_3 which connect all combinations of the consumption of housing and other goods that bring the household the same utility. Curve AB indicates the income limit curve of the household, mathematically speaking:

$$y = p_1x_1 + p_2x_2$$

Here y is the income of the household and p_1 , p_2 are prices of both the goods and x_1 , x_2 are the consumed amounts of both the goods (x_2 represents the amount of consumed housing services, housing). The household that desires to maximize its utility will opt

for a consumption combination that will correspond to point C_1 , where the income limit curve touches the highest possible indifference curve. Let us now presume that state intervention will result in a decrease of the cost of housing to p_2' . The income limit curve will then, thanks to the decreased cost of housing, move from AB to AC . The new income limit curve AC can be mathematically captured thusly:

$$y = p_1x_1 + p_2'x_2$$

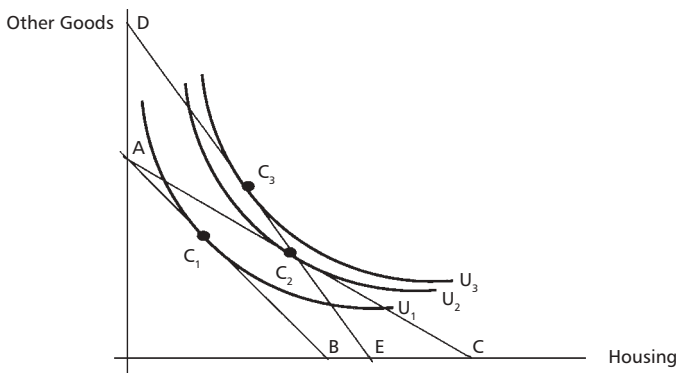
Because it is only the cost of housing that decreases, point A remains the starting point of the income limit curve on the axis measuring the consumption of other goods. In such a case, a rationally thinking household will opt for a combination of consumption in point C_2 on the higher indifference curve U_2 ; it will spend more on housing ($x_{2,2}$) and may consume more of the other goods (though what happens depends on the shape of the indifference curve). Let us now presume that the public authority, instead of decreasing the cost of housing, gives the needy household an income-tested cash allowance, the payment of which is as costly for public budgets as the original intervention consisting in decreasing the market prices of housing. Then the income limit curve moves from AB to DE , and mathematically we can describe curve DE thus:

$$y + (p_2 - p_2')x_{2,2} = p_1x_1 + p_2x_2$$

Since point C_2 is the point where income limit curve AC touches indifference curve U_2 and since the indifference curves are usually convex toward the beginning, part of the income limit curve DE must be above the level of indifference curve U_2 . Consequently, the household receiving an equally costly cash allowance is able to achieve a greater indifference curve (U_3) than it could if the intervention were to result in a decrease in the cost of housing, and opts for a combination of consumption corresponding to point C_3 in Figure A1.2.

Figure A1.2

Comparison of the Efficiency of Cash Allowance versus Price Regulation



SOURCE: Fallis (1985, 131)

APPENDIX II

Programs to Meet the Social Objectives of Housing Policies

Following is the list of the main possible social objectives of local or national housing policies:

- Higher affordability of housing for middle- and low-income households;
- Higher quality of housing;
- Social mix;
- Higher labor/tenant mobility;
- Sustainable development of housing conditions;
- Specific shortages (housing care, sheltered and supervised housing for disabled, handicapped, elderly, homeless people and children without parents);
- Tenant participation.

Greater Affordability of Housing for Middle- and Low-income Households

The examples of possible local/national housing programs are:

a) *Housing allowances (HA)*

Effectiveness: Has the program fulfilled the objectives of its “creators” (the decrease in the average rent-to-income ratio? Is the percentage of households receiving HA high enough to have a decisive influence on higher affordability of housing for middle- and low-income households? Are some households excluded from HA due to the formula or other restrictive provisions (e.g. needy households living in market rental sector)? What is the share of households that apply for HA out of the total number of households that are eligible for HA? If the share is low, why don’t households want to apply for HA? Do HA really help those who are expected to be helped (low income households) or does the insufficient targeting lead to the relatively high share of higher income households among the HA beneficiaries?

Efficiency: What is the share of HA expenditures on total state/local housing expenditures? Is there an empirical test of the correlation between the introduction of HA and rent price growth in an uncontrolled (market) rental sector? What is the estimate of the impact of HA introduction on rent price inflation? What other state/local expenditures rose due to the inflation caused by the HA introduction? Is there any econometric analysis comparing the overall demand side expenditures (HA) with the situation when the same amount of sources is used for supply side subsidies (e.g. new construction of social housing, improvement of current housing stock, etc.)? What are the main conclusions of the study? Does a higher HA (in association with higher rents), when factored according to the particular formula of HA applied in a particular country, raise the probability that the household will choose not to work instead of pursuing economic activity? Is there clear evidence of de-motivation from a particular HA model (poverty trap)? Is this problem quantified in some way?

b) *Rent regulation/setting/pooling*

Effectiveness: Is the rent regulation/setting/pooling really targeted to socially needy populations? Are some socially needy groups of households excluded from the sector where rents are controlled by public authorities (by excess demand or insufficient monitoring of rent controlled housing stock)? Are there provisions allowing for the rise in regulated rents when income of household living in the

controlled sector is rising? Do rent deregulation processes reflect the different level of social needs of the different households?

Efficiency: What is the effect of rent control on labor mobility? What is the amount of reconstruction/improvement investments in the controlled sector compared to the market sector? What is the average difference between rents in controlled and uncontrolled housing sectors for the same kind of dwellings in the same locations (or, at least, same size residence)? Do rents reflect the property values of dwellings in a controlled sector? Is there any evidence of underoccupation/overconsumption in the rent-controlled sector? How much do households from old dwellings subsidize the households living in new dwellings in the case of rent-pooling? Is there any evidence of the reduction of private market rental offers due to the national/local rent policy?

c) *Allocation policy*

Effectiveness: Are dwellings with lower rents allocated among households with lower income and *vice versa*? Is the maximum income limit applied in the allocation of social housing (means-testing)? Are there any groups of households excluded from allocation of current social housing? Do municipalities require a period of permanent residence in the area of local authority when households apply for social housing? Is there a stigma of social housing leading to the situation that other needy households decline to apply for social housing? Does the point system reflect the real social needs in different localities?

Efficiency: If the rent-setting mechanism is based on income, what are the incentives made to encourage members of the household to begin or continue to work instead of being unemployed? How is the difference between the housing costs of social landlords and income flowing from the rent handled? Is there any econometric analysis comparing the expenditures of a specific allocation policy to expenditures on HA when the same level of rent-to-income ratio is assured?

d) *New social housing construction (provided by different management forms)*

Effectiveness: Has the program fulfilled the objectives of its “authors” (e.g. housing for low- and middle-income households)? Is the maximum income limit applied in allocation of new social housing (means-testing)? Does the program lead to the filtration process? Can the program be abused (or was it abused) for other purposes due to bad legislation, rules or insufficient control (e.g. quasi-ownership housing instead of rental housing, housing for higher income households instead of housing for low- or middle-income households, etc.)? Are there effective provisions to prevent this situation? Are some target groups of population excluded from new social housing allocation and why?

Efficiency: What are the construction costs per square meter of new social housing compared to the construction costs of other private or public developers? Are there construction cost limits applied when public subsidies are allocated? Do rents in new social dwellings cover the total costs connected with maintenance, administration, repairs and construction after the deduction of subsidies, low or zero land price, tax advantages, etc.? Do rents reflect the property value of dwellings (location, quality, and services)? What is the average rent price of new social housing for different sized dwellings in comparison to the rents in new rental dwellings in other controlled or uncontrolled rental sectors in the same location? What is the average net present value (NPV) of new social housing investment (counting grants, interest subsidies, etc.) compared to the NPV of investments in the construction of new private rental dwellings? Are there any studies quantifying the scale of the crowding out effect of social housing construction? Are there any econometric tests comparing the overall expenditures of demand side subsidies (HA) with the same level of supply side subsidies (social housing construction)? Does private capital participate in the new social housing construction (e.g. in the case of new social housing management forms)? How many dwellings would be constructed if no private money were engaged, comparing with the situation of private-public joint investment?

e) *Privatization of rental dwellings (higher affordability of ownership housing)*

Effectiveness: Did lower- and middle-income households privatize their dwellings? Were they interested in the privatization process? What incentives were created by the State or local authorities to encourage lower- and middle-income households to privatize their dwellings?

Efficiency: What was the average difference between the market price of dwellings and the price of dwellings used for privatization, broken down by size of residence or location? Do new owners take care of their properties (i.e. pay enough to the repair funds to assure the maintenance and improvement of the dwellings)? What percent of privatized dwellings were sold immediately after privatization? What are the measures applied to prevent speculation or the dilapidation of buildings being privatized?

Higher Quality of Housing

The examples of possible local/national housing programs are:

a) *Refurbishment/reconstruction of dwellings*

Effectiveness: Has the program fulfilled the objectives of its “creators” (e.g. improvement in the locations where it was expected, the expected scale of improvement works, etc.)? Do tenants (or other people directly influenced by the program) participate in the design and practical application of the program? Further questions arise in context with Social Mix and Tenant Participation social objectives.

Efficiency: Are costs of refurbishment/reconstruction lower than the costs of demolition and new housing construction (including direct costs plus higher maintenance costs and risk premiums in the case of refurbishment/reconstruction of low-quality dwellings)? Were the costs of the program covered by private capital or at least partially funded by private capital? In the event homeowners benefit, do or will they cover a substantial part of the improvement costs? In the event tenants benefit, are or will the costs of improvements to the dwellings be covered (at least partially) through higher rents in the improved dwellings?

b) *Regeneration of the neighborhood*

Effectiveness and *efficiency* can be evaluated by answering the same questions as in the case of refurbishment/regeneration of dwellings.

c) *New social housing construction*

Effectiveness: Are there explicit requirements concerning the quality of new social housing dwellings (e.g. the size of dwelling, materials used, and insulation standards)? Could the developers avoid meeting these provisions? How are the developers encouraged to increase the quality of housing?

Efficiency: see above

Social Mix

The examples of possible local/national housing programs are:

a) *Allocation policy*

Effectiveness: Does the allocation policy in current and/or new municipal housing assure the maintenance or recovery of social mix in different locations/blocks of flats? How? Is the housing stock of

municipalities or other social landlords occupied by different income/racial/social groups of society due to the allocation policy of landlords or due to the inefficiencies of the housing market? Are there any survey results that would prove the answer? When analyzing the time series, is the effect of allocation policy on the maintenance of social mix only short-term or can it be expected to remain long term?

Efficiency: see above

b) *Rent setting/regulation/pooling*

Effectiveness: Is the rent-setting mechanism or rent regulation designed in a way that leads to a social mix of population and prevents social exclusion? Is the effect of rent policy on the maintenance of social mix only short-term or it can be expected to last?

Efficiency: see above

c) *Refurbishment/reconstruction of dwellings and regeneration of dwellings*

Effectiveness: Are there any social survey results confirming that improvement programs helped to maintain the social mix in particular districts or blocks of flats? Are the inhabitants living in areas or dwellings chosen for improvement participating in the project design and application? Do social landlords conduct regular tenant satisfaction surveys? Is the effect of refurbishment projects on the maintenance of social mix short-term or it can be expected to last? Is there any trend raised from time series analysis that could serve as evidence for the answer of the previous question?

Efficiency: see above

APPENDIX III

Questionnaire for the Local Government and Housing Survey (LGHS)

Local Government and Housing Survey

The Open Society Institute, Local Government Initiative, Budapest and would greatly appreciate it if you would be willing to participate in an International comparative survey on local government housing policies by filling in the following brief questionnaire. The survey forms a part of the International research project and the collected information will be used to provide a comparison of the policies in six Central and Eastern European countries. If any questions arise, do not hesitate to contact.....or the International coordinator of the project: Martin Lux, Institute of Sociology of Academy of Sciences, Jilská 1, 110 00, Prague 1, tel: (4202) 2222 1655, fax: (4202) 2222 1658, e-mail: lux@soc.cas.cz. The questions should be answered by the person responsible for housing policy in your local government. We thank you very much for your willingness to assist.

1. Does your local government have its own housing policy concept?

Yes, approved by the council	1
Yes, but not approved by the council	2
No	3

2. If yes, does it contain clearly defined main housing policy objectives to be achieved?

Yes	1
No	2

There is no housing policy	99
----------------------------	----

3. If yes to number 2, please list these objectives and rank them according to their importance.

- 1
- 2
- 3
- 4
- 5
- 6

No objectives have been defined	99
---------------------------------	----

4. Whether your local government has its own objectives or not, would you please, according to your own opinion, rank the following objectives according to their importance when particular housing problems in the area of your local authority are taken into account. Write 1 for the most important objective and 9 for the least important objective.

	Higher affordability of housing for middle- and low-income households
	Improvement of housing conditions, higher quality of housing (including higher energy savings)
	Maintenance or creation of social mix to prevent social segregation
	Higher labor mobility
	To meet the shortage of housing for disabled, handicapped people
	To meet the shortage of housing for elderly people
	To accommodate homeless people
	Tenant participation in housing management
	Support for home ownership and/or private housing construction

5. Would you briefly indicate what policies/programs/activities are being prepared or are already used by your local government (even from the range of national housing programs) to meet the three most important social objectives stated in question No. 3. If no objectives are defined, please indicate what policies/programs/activities are being prepared or used by your local government (even from the range of national housing programs) to meet the objectives that were evaluated from the list in question No. 4 as the three most important social objectives.

Note: Among programs/policies the following may be included: New rental housing construction subsidies, land policy, housing allowances, rent setting system in local government housing, allocation policy in local government housing, new management forms (public private partnership, housing associations), etc.

Objective 1:

.....

Objective 2:

.....

Objective 3:

.....

6. Which of these programs would or will, in your opinion, lead to the fulfillment of the objectives in the most effective way?

Objective 1:
 Objective 2:
 Objective 3:

The next few questions concern your local government housing. Please exclude the sheltered housing or housing services for special purposes (housing for pensioners, children without parents, handicapped people, bread-and-breakfast housing, etc.) from your responses to the following.

7. How many rental dwellings does your local authority own?

.....dwellings

8. What is the percentage of local authority housing out of the total number of dwellings in your municipality. If no precise figures are available, please estimate.

.....%

9. What is the average residential size of your local authority dwelling in square meters? If no precise figures are available, please estimate.

.....square meters

10. What is the average number of rooms per local authority dwelling? ? If no precise figures are available, please estimate.

.....rooms

11. What is the number of vacancies in your local authority housing now?

Note: Housing that is vacant and available for let 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 the reconstruction/improvement; d) all dwellings to be let after minor repairs (simple maintenance between tenants moving out and new tenants moving in).

.....dwellings

12. What was the average rent loss through vacancies as a percentage of gross rent roll last year?

Note: The rent loss through vacancies 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 inhabitable stock owned by local authorities, whether occupied or not. Exclude any rent losses arising from long term vacancies that arise because a property is designated for major repairs.

.....%

13. What was the sum of rent arrears as a percentage of the gross rent roll last year?

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

.....%

14. What is the expected sum of rent arrears as a percentage of the gross rent roll in 2001?

.....%

15. What was the number of re-lets as a percentage of the total municipal housing stock last year?

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!

.....%

16. What is the average time from application to allocation of a municipal dwelling for a household of two adults and one child (just born) where only one adult person is earning a national average salary? Please indicate in months.

.....months

17. Does your local authority use different rent setting approaches in municipal housing?

Yes	1
No	2

THE FOLLOWING QUESTIONS ON RENT SETTINGS WERE PREPARED BY COUNTRY TEAMS AS THERE ARE BIG DIFFERENCES AMONG COUNTRIES.

18. Do total rent revenues cover the full costs connected with housing maintenance, necessary repairs and administration of local authority housing? Please do not take into account reconstruction/improvement/modernization costs.

Yes	1
No	2

19. Do you provide a waiting list of applicants for local government dwellings?

Yes	1
No	2

20. Do you use a clearly defined point system of social need measurement when municipal housing dwellings are allocated?

Yes	1
No	2

21. Does your local authority use different allocation policies?

Yes	1
No	2

22. If yes, what are the percentages of dwellings allocated by different allocation policies out of the total amount of dwellings allocated in the last year? Please give a percentage for each separate allocation policy.

.....

.....

23. Who manages and maintains your local authority housing (or the majority of the stock)?

Municipal administration	1
Budgetary organization	2
Municipal maintenance company	3
Private maintenance company	4
Private real estate agency	5

24. What most efficient tool do you use or did you use to solve the problem of rent arrears?

.....

25. What most efficient tool do you use or did you use to solve the problem of vacancies?

.....

26. Could you please, briefly describe the housing policy initiative of your local government that improved the conditions of housing or met the most acute housing problems and that, in your opinion, could serve as an inspiration for other local governments in your country?

Note: Different programs such as alternative management forms, public-private partnership management, special allocation or rent policies, control systems or tenant participation management, etc..

.....

Name of municipality:

Region:

Thank you for your answers.

ENDNOTES

- ¹ 'A public good is a good or service that provides benefits which cannot be limited to those who directly pay for it' [Truett and Truett, 1987: 41].
- ² Portugal has defined the right to housing in great detail. They specify that the right to housing includes accommodations of sufficient size, hygienic standard and a rent proportionate to income.
- ³ "Generally speaking, economic efficiency lies in the fact how to take best advantage of the limited resources to satisfy human needs." [Barr, 1993, 72].

Country Profiles

Rental Model

Czech Republic

Poland

Homeownership Model

Estonia

Romania

Slovakia

Bulgaria

Between the State and the Market:
Local Government and Housing
in the Czech Republic

Luděk Sýkora

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Between the State and the Market: Local Government and Housing in the Czech Republic

Luděk Sýkora

INTRODUCTION

The main aim of this chapter is to investigate the role of Czech municipal governments in the field of housing, to assess their performance and recommend policy changes that could increase the economic efficiency and social effectiveness of housing policies in the field of local housing. The local government's role in housing is, to a large extent, shaped by the national legislative and policy framework. Therefore, the first part of this paper is devoted to the general context for local government and housing. It starts with a brief overview of housing stock, construction and affordability. Major attention is given to trends in the housing system and housing policy since 1989 and to contemporary housing policies. The second part investigates local government housing and local government housing policies. It starts with a discussion of the division of competencies between the State and local governments. The overviewed and discussed local government housing issues include local government institutions and policies, local housing problems, objectives of local governments in the housing sphere, management and maintenance of municipal housing, allocation of municipal housing, rent setting models, privatization of municipal housing, new housing construction and housing reconstruction and modernization. The final part attempts to evaluate the efficiency and effectiveness of local government housing management and local government housing policies. It also provides policy recommendations and proposals for required actions for the solution of identified problems.

This chapter is an empirical study that focuses on the operation of the institutional framework in a particular field of local government, i.e. in housing. The empirical information was acquired by several methods including desk research, questionnaire inquiry, interviews and case studies of local government approaches to housing. The desk research was used for obtaining the initial research information for the country from statistical sources, government documents, research reports and from press surveys. It was supplemented by interviews with central and local government officials. The major source of information about local government housing policies and practices was

a questionnaire inquiry (Local Government and Housing Survey) conducted in towns with 5,000 or more inhabitants.

The Czech Republic has a population of 10.3 million (in 2001) in an area of 78,864 km². Population growth stagnated from the beginning of 1990s and since 1994 there has been a population decline. Over 70 percent of the population are urban and 63.6% of the inhabitants live in towns and cities with a population of over 5,000. After the political change in 1989, democracy was quickly established. The rapid economic reform starting in January 1991 led to the reintroduction of a market economy. In 1995, the Czech Republic became the first former eastern block country accepted by OECD and then become a member of NATO. The Czech Republic is currently, in accordance with association agreements, in the process of adjusting institutions and legislation to EU standards and EU membership is expected in the coming years.

1. HOUSING AND NATIONAL HOUSING POLICY DURING THE TRANSITION

1.1 General Housing Conditions

1.1.1 Housing Stock

In 2001 (census held on March 1, 2001) there were 4,369,239 dwellings in the Czech Republic. The number of dwellings had increased by 292,000 since the time of the 1991 census. In the same period, 243,000 new apartments were constructed. There was also a loss of about 100,000 dwellings (estimate by the Czech Statistical Office). Therefore, there has been an unexpected increase of about 145,000 dwellings. An additional survey made by the Czech Statistical Office showed that during 1991 Census a number of dwellings were not counted, while they were incorporated in the 2001 Census. These included, for instance, dwellings that are not permanently inhabited and are used for weekend recreation (the buildings were not officially transferred from residential to recreational use), second dwellings in two-generation family houses, dwellings used by the Russian army, etc. There are also some spaces, such as in second homes, which have been improved to permanent residencies in the past 10 years.

The number of permanently inhabited dwellings per 1,000 inhabitants increased from 360 in 1991 to 372 in 2001 (Table 2.1). There are other dwellings that serve residential purposes, but their inhabitants do not have permanent residency. Black market or unofficial subleasing of municipal apartments is one of these reasons and another is

that landlords sometimes let apartments on short-term leases and do not allow tenants to have their permanent residency address there. If we take these dwellings into account, the number of inhabited dwellings per 1,000 people is 384.

Table 2.1
Number of Dwellings in 1991 and 2001

	Number of Dwellings 1991	Dwellings per 1,000 Population	Number of Dwellings 2001	Dwellings per 1,000 Population
Permanently inhabited	3,705,681	360	3,828,912	372
Inhabited (incl. temporary)	N/A	N/A	3,951,345	384
Habitable	4,039,738	392	4,304,084	418
Total	4,077,193	396	4,369,239	424

NOTE: Population in 1991—10,302,215, population in 2001—10,292,933.

SOURCE: Czech Statistical Office, Census 1991 and Census 2001.

From the total housing stock, 87.6% of dwellings were permanently inhabited and 1.5% are not suitable for habitation. 10.9% of the dwellings could serve residential purposes but are not permanently inhabited. The share of dwellings that are not permanently inhabited increased from 9.1% in 1991 to 12.4% in 2001. These figures brought about a hot public debate about housing shortage and housing market functions. The widespread argument was that there is no housing shortage with such a high amount of “empty” dwellings. The Czech Statistical Office disclosed more precise data showing that many of the permanently uninhabited dwellings are actually used or cannot be used for residential purposes. Only a smaller part of them are empty and not used, often located in remote areas and economically deprived regions. One third of the dwellings that are not permanently inhabited are used for recreational purposes, 22.7% are used for living, but their tenants do not have permanent residency there and 12% are unsuitable for habitation due to technical or sanitation reasons. Most of the remaining third of these dwellings are spaces under reconstruction or dwellings undergoing a change of owner or tenant. There are important differences between small municipalities and cities. While in small settlements the share of dwellings with no permanent resident is often over 20%, in towns with more than 10,000 people and in cities the share is between 7 and 10%. The main reason for this in municipalities with less than 5,000 inhabitants is recreational use; in cities it is a temporary residency of the inhabitants (Table 2.2).

Table 2.2
Reasons for Non-permanent Residency in Dwellings [%]

	Recreational Use	Temporary Residency	Non-habitable	Other
Czech Republic	22.7	31.3	12.0	34.0
Municipalities with up to 4,999 inhabitants	12.7	48.7	12.9	25.7
Municipalities with over 5,000 inhabitants	36.6	7.0	10.8	45.6
Cities with over 100,000 inhabitants	40.6	1.3	7.8	50.3

SOURCE: Czech Statistical Office, Census 2001.

Despite an increase in the number of dwellings per 1,000 inhabitants, there is still a question as to what is the relationship between the number of dwelling units and the number of households. Due to socio-cultural and demographic trends, such as population aging, smaller families and individual living, there are a growing number of households. The initial housing shortage inherited from the Communism era, estimated at about 170,000 dwellings in 1991, could deepen even further. The data from Census 2001 concerning the number of households that would confirm or disprove this have not been published yet.

The qualitative characteristics of housing stock in the Czech Republic in 2001 have improved in comparison with 1991. Living area per dwelling increased from 45.9 to 49.3 m² and living area per person from 17.0 to 18.6 m². This is the result of new construction. For instance, the average size of dwellings finished in 2000 was 68.2 m². There has also been improvement in the share of dwellings with basic amenities (already high in 1991) such as indoor toilet, bathroom, running water, etc. Especially noticeable is the increase in the share of flats with a connection to a natural gas network that rose from 50.0% in 1991 to 64.1% in 2001, namely due to infrastructure improvements in many smaller municipalities.

Census 2001 also provided an answer concerning the impact of privatization on tenure structure. In the whole country, 47% of dwellings are in owner-occupation with 29% remaining in the rented sector (about 6% in private rented sector) and 17% in the cooperative sector (Table 2.3). In 7% of the cases there were other forms of tenure (using a dwelling in a family house owned by parents, etc.). While owner-occupied

housing grew from 41% in 1991, rented housing declined from 41% and cooperatives from 20%. In large cities, the situation is somewhat different, with a higher share of flats in the rented sector and a smaller share in the owner-occupied sector (Table 2.4 provides an example of Prague). Tables 2.3 and 2.4 show the significant influence of privatization on changing tenure structure in a segment of apartment housing. In the Czech Republic in 2001, over 20% of the dwellings in apartment houses were in owner-occupation, mainly due to sales of municipal flats and the transfer of cooperative houses to condominiums with private flat owner-occupiers. The tables also show the substantial share of dwellings in tenant cooperatives that were newly established for the sake of municipal housing privatization (the sale of a whole house to tenant cooperative). In Prague, for instance, the sale of whole properties to tenant cooperatives was more often used as a strategy than the sale of individual apartments while in the country, as a whole, it was just the opposite.

Table 2.3
Tenure Structure in the Czech Republic in 2001 [%]

Tenure	Total Dwelling Stock	Dwellings in Family Houses	Dwellings in Apartment Houses
Owner-occupied	46.8	82.9	20.3
Rented	28.6	3.6	46.9
Cooperative	14.3	0.2	25.2
Tenant co-op	3.1	0.0	5.5
Other	6.7	12.8	1.7

NOTE: The share of dwellings in family houses is 42.6%.

SOURCE: Czech Statistical Office, Census 2001.

Table 2.4
Tenure Structure in Prague in 2001 [%]

Tenure	Total Dwelling Stock	Dwellings in Family Houses	Dwellings in Apartment Houses
Owner-occupied	22.2	81.1	13.7
Rented	47.2	5.2	53.3
Cooperative	13.0	0.3	14.9
Tenant co-op	13.4	0.3	15.5
Other	3.4	12.4	1.8

NOTE: The share of dwellings in family houses in Prague is 12.8%.

SOURCE: Czech Statistical Office, Census 2001.

A strong rental sector is maintained in the Czech Republic. The “right to buy” privatization known in many East European countries was not applied, which makes an important difference between Czech housing system and housing in many other transition countries. Rental housing that stays in the ownership of local governments can especially be an important tool to influence the social and economic development in municipalities.

1.1.2 Housing Construction

Housing construction declined rapidly after 1990 (Table 2.5). The number of completed dwellings reached its bottom in 1995. Since 1994 there has been growth in the number of housing construction units started annually and the number of completed units has increased from 1996. However, it has remained small in comparison with the previous decade.

Table 2.5
Housing Construction in the Czech Republic
[Number of Dwellings], 1990–2001

Year	Number of Dwellings		
	Started	Under Construction	Completed
1990	61,004	158,840	44,594
1991	10,899	128,228	41,719
1992	8,429	97,768	36,397
1993	7,454	72,356	31,509
1994	10,964	62,117	18,162
1995	16,548	66,172	12,662
1996	22,680	74,726	14,482
1997	33,152	90,552	16,757
1998	35,027	103,191	22,183
1999	32,900	112,530	23,734
2000	32,377	118,785	25,207
2001	28,983	121,705	24,759

NOTE: Apartments in extensions of existing buildings, houses for the elderly with social services and those adapted from non-residential premises have been included since 1996.

SOURCE: Czech Statistical Office.

The decrease in housing construction in the first half of the 1990s was influenced by a coincidental confluence of several factors. Among the most important were the termination of state housing construction and the withdrawal of state subsidies to cooperative and private house building. Second was the central government policy of wage regulation, aimed at keeping inflation low and creating a competitive advantage for domestic industries, while constraining purchasing power of inhabitants. Third, the rapid liberalization of prices sharply increased construction costs and raised prices of new housing out of the reach of middle-income households. The market could not react in an environment of huge disparities between housing need and demand and the government was not willing to bridge the gap between the high need (but low purchasing power) of households and the sharply increased costs of housing production. The growth in housing construction since the mid-1990s was influenced by a general improvement in the wealth of inhabitants, especially of the group with high incomes. The introduction of housing policy programs aimed at the stimulation of housing consumption, i.e. housing savings' schemes and mortgages, also positively influenced the higher number of new dwelling units construction. However, despite the state support, the new housing, whether in the form of family or apartment houses, is affordable only to a small segment of the Czech population. Therefore, there are limits to annual demand and it is reflected in the stagnation of housing construction or even the slow decline of the last few years. The demand was saturated, while the share of population that could afford new housing did not increase. There is also a remarkable regional differentiation in housing construction with booming suburban areas, namely around the capital city of Prague, where the wealthiest Czech population is concentrated.

While, in 1991, 62% of finished dwellings were in apartment housing, dwellings in family houses now outnumber apartment housing. The majority of new dwellings are in the owner-occupied sector, either in the form of family housing or condominiums with apartments for sale. New rental housing is nearly exclusively, built only by municipalities. Residential housing developers prefer the quick returns on their investment from the sale of dwellings over the long-term revenues from rent. Furthermore, the strong protection of tenants discourages private investors from involvement in the rental sector. Despite the preceding, most housing is now built by private companies or individual investors. The public sector remains an important provider of new dwellings with around a 10% share on new housing construction (Table 2.6).

Beside the new housing construction, an important trend is a rapid growth in the modernization of housing. Between 1996 and 2001 the number of modernized dwellings increased five times to 13,500 completed modernizations in 2001. In 2001, the number of modernized dwellings was as high as over 50% of newly built dwellings (Table 2.7). Despite the fact that modernization does not increase the country's total dwelling stock, it greatly contributes to the growing quality of housing.

Table 2.6
The Number and Share of Municipal Housing Projects Started and Completed
from the Total Number of Dwellings in 1990–2001

Year	Started Total	Started Municipal	Share of Started Municipal [%]	Finished Total	Finished Municipal	Share of Finished Municipal [%]
1990	61,004	10,411	17.1	44,594	8,516	19.1
1991	10,899	1,524	14.0	41,719	9,610	23.0
1992	8,429	1,864	22.1	36,397	7,086	19.5
1993	7,454	192	2.6	31,509	6,213	19.7
1994	10,964	1,477	13.5	18,162	4,224	23.3
1995	16,548	3,015	18.2	12,662	1,689	13.3
1996	22,680	3,165	14.0	14,482	2,727	18.8
1997	33,152	4,123	12.4	16,757	2,835	16.9
1998	35,027	3,407	9.7	22,183	3,216	14.5
1999	32,900	3,246	9.9	23,734	2,925	12.3
2000	32,377	3,679	11.4	25,207	2,897	11.5
2001	28,983	2,585	8.9	24,759	2,686	10.8

NOTE: Newly constructed, extensions and reconstructions from non-residential premises.

SOURCE: Czech Statistical Office.

Table 2.7
Modernization of Housing in the Czech Republic
[Number of Dwellings], 1996–2001

Year	Completed	Ratio to Newly Built [%]
1996	2,725	18.8
1997	4,645	27.7
1998	6,078	27.4
1999	8,755	36.9
2000	10,725	42.6
2001	13,435	54.3

SOURCE: Czech Statistical Office.

1.1.3 Housing Affordability

Between 1990 and 2000, the increase in the average construction costs of new dwellings was 2.7 times higher than the growth of net household incomes. Construction costs of new flats in apartment houses rose 7.5 times and, in the case of new dwellings in family houses, 7 times from 1990 to 2000. Net household incomes increased only 2.7 times in the same period [MMR, 2001]. The construction costs do not include all costs associated with the property development either. For instance, the cost of the land is not included, while it is a substantial part of the total costs. Furthermore, in the case of housing constructed by developers for sale, the sale prices are higher than the overall costs associated with housing development.

The price per m² of a new dwelling is in the range of 14,000–25,000 Czech Crowns (CZK) (USD 470–830) (MMR 2001). However, there are remarkable regional differences. For instance, in Prague, the price per m² of new dwellings offered by developers for sale is rarely below CZK 30,000 (USD 1,000) and, in the case of luxury housing projects, it can be as much as CZK 100,000 (USD 3,300). Sale prices of existing housing vary greatly according to dwelling quality and location. Location is starting to play an especially important role. In Prague, the cost is several times higher than in the case of economically declining regions. For instance, in November 2001, the asking price for a two bedroom flat in North Bohemian districts Chomutov, Most and Teplice was CZK 150–200,000 (USD 5–7,000) compared to CZK 1,252,000 (USD 42,000) in Prague [MMR, 2001].

According to Lux (2002), the average cost of a newly constructed dwelling in 1992 was at the level of 5 annual net household incomes. In 1996, it reached over 10 annual net household incomes. Despite the introduction of mortgages, saving schemes, and the state housing policy support in the form of interest subsidies, the more rapid growth in construction prices than of incomes caused a decline in the share of households that can afford mortgages. These went from 7.7% in 1992 to 4.1% in 1999 (without the state interest subsidy) and 6.4% (with the use of the subsidy). Lux (2002) also showed, that there has been an increase in the share of mortgage payments on household income, growing from 23.96% in 1992 to 38.06% (without the state support) or 32.52% (with the support). During the 1990s, the affordability of owner-occupied housing declined. The introduction of state subsidies reduced the impact of this decline. However, there is still a very low share of households that are eligible to use mortgages for financing their housing need and the burden to family budget from loan repayment is increasing. Low affordability of owner-occupied housing is one of the most pressing problems for Czech housing. The public budgets have very limited means to improve the situation. It can be expected that with the economic growth and increase in the general welfare of population, the affordability of housing to owner-occupation will increase. Nevertheless, there is a threat that the entrance to the European Union will bring an increase in price levels and thus diminish the affordability.

The affordability of housing in the rental sector differs according to the type of rent. Most apartments (estimates say over 90%) are subject to rent regulation. The maximum basic regulated rent (rent ceiling) for an average apartment of 60 m² increased ten times from CZK 134 (USD 4.5) in 1990 to CZK 1,338 (USD 45) in 2002. This growth was different according to the size of the settlement and therefore, in larger cities and especially in Prague, the growth was much higher than in small municipalities. In dwellings newly constructed with the use of state subsidies, the rent can be increased up to 300% of the maximum basic regulated rent. This rent is usually applied in the allocation of newly constructed municipal rental housing. Market rents vary greatly according to the quality of housing and its location. In Prague in 2000, the average market rent was five times higher than the maximum basic regulated rent [MMR, 2001]. However, the highest market rents were as much as 14 times higher than the level of regulated rent while the lowest market rents were on the level of regulated rents.

The housing affordability has also been influenced by the growth of prices for housing services. During the 1990s, the costs of utilities underwent deregulation, with 39 times growth of fees for water connection, 7.8 times for fuel, 7.6 times for central heating and hot water, 6.5 times for natural gas and 4.8 times for electricity. Most of this increase has been during the first half of the 1990s [MMR, 2001]. The increase of total housing costs from 1994 to 2000 was 125.5% in comparison with 51.3% general price inflation [MMR, 2001].

The average monthly housing expenditure was CZK 2,793 (USD 93) in 2000 and accounted for 16.2% of net household incomes. In rental housing, housing costs accounted for 20.3% of household revenues. The burden of housing costs was highest for pensioners, for whom it accounted for 24% of their incomes. Housing costs vary according to tenure, size of dwelling and location. The highest share of housing costs from household incomes was in 2000 in rental housing (18.1%), followed by cooperative (15.8%) and smallest in owner-occupied family houses (11.7%—these are mostly old family houses and their users do not pay any housing loans). While the cost for utilities is on a similar level across the country, the geographical differences in net rent substantially influence regional differences in housing costs.

1.2 National Housing Policy Objectives and Legislative Changes

1.2.1 Transformations in the Housing Policy

During Communism, there were four main types of tenure: state, enterprise, cooperative and private (family) housing. The state-owned housing stock consisted of apartment houses built prior to the Communist take-over in 1948 (mostly pre-war and nineteenth

century buildings) and acquired by the State in 1948–89 and newly constructed, mostly prefabricated, blocks of flats. State housing accounted for 45% of all dwellings in 1960 and 40% in 1991. The state housing stock was managed by the Housing Services' Companies, which were established by, and subordinated to, the local authorities (National Committees). While housing departments of local authorities were in charge of housing allocation to families in need, the Housing Services' Companies were in charge of collecting rent, basic maintenance and building repair. Because of rent regulation, rent revenues from both residential and commercial premises located on state properties amounted to less than half of expenditures and a large part of expenditures had to be covered by state subsidies. Financial resources for maintenance and repairs were limited and many old apartment houses fell into disrepair. State housing was produced within the Complex Housing Construction Program. The program included construction of state housing as well as provision of land, technical and service (retail, schools, cinemas, etc.) infrastructure for all forms of housing (state, enterprise, cooperative and private). Housing construction had a distinctive spatial pattern, depending on tenure. Private family housing construction prevailed in most regions, especially in rural areas, villages and small towns. State housing was concentrated in large towns and cities and in industrial districts. Enterprise housing was built especially in certain backward frontier areas and districts with new industrial developments. Cooperative housing was characteristic of medium and large towns and cities.

Two particular trends shaped the housing system in the Czech Republic after 1989: Deregulation to market and decentralization to local governments. The deregulation included housing privatization, rapid withdrawal of the State from subsidies to housing construction, rent regulation/deregulation and introduction of housing allowances. The decentralization started with a massive transfer of public housing ownership and management responsibilities from the State to local governments. The post-1989 developments in the housing system were closely intertwined with basic economic reforms and deeply rooted in the heritage of the Communist housing system. The housing policy and related policies applied through the 1990s can be divided into two fields: Transformation policies and regular housing policies. The transformation policies aimed at changing the basic parameters of the system; they represented one-direction transformations towards a market-based housing system. The regular housing policies aimed at the performance of the market-based housing system were introduced in the mid-1990s and they will be outlined in the next section.

Housing changes in the first half of the 1990s have been conditioned by general transformations towards a market economy. The major focus of the economic reform was the reintroduction of private ownership and market exchange. Housing as a specific subject was not a prime issue on the political agenda. The government believed that the general introduction of market principles would also lead to the establishment of a housing market. Up to the mid-1990s, major changes in housing were caused by the general

policies of economic reform, while explicit housing policy played a marginal and passive role [Musil, 1995 and Sýkora, 1996]. The move towards the market model for housing was based on the opinion that the market will allocate and provide housing efficiently. Consequently, state involvement in housing was quickly removed through the termination of direct state involvement in housing provision, decentralization of some responsibilities to local governments and an overall deregulation to market. The major goal of these transformation housing policies was to establish a new market-based housing system. Most of this was accomplished during the 1990s. However, there are still some areas which need to be adjusted (landlord-tenant relations) or completed (rent deregulation) to get into full conformity with a true market-based housing system.

In the post-1989 period, direct state involvement in housing virtually ceased to exist. The Complex Housing Construction Program was terminated at the end of 1990 and there has been no direct state investment in new housing construction since 1993. The State has also ended direct subsidies for construction of individually self-built private family housing and cooperative housing. However, certain duties inherited from Communism had to be financially covered in the transition period. In 1993–97, a certain and steadily declining amount of finance was allocated to complete unfinished buildings that started under the Complex Housing Construction Program, to cover duties of the State from the former housing system. Another financial burden inherited from the Communist system was the reimbursement of capital losses of commercial banks from housing loans allocated during Communism for individual private and cooperative housing construction. The commercial banks, that took over the credits from the former State bank have been reimbursed for capital losses according to the difference between the market interest rate and the low rates at which credit was granted under Communism. A major proportion of these loans were paid off by 2000 and the last installment will be repaid in 2034.

The new character of the Czech housing system was shaped by decentralization to municipalities. The decentralization started in 1991 with a massive transfer of 877,000 dwellings (23.5% of the country's dwelling stock) from state to municipal ownership. Only buildings in which more than one-third of the floor space was in non-residential use were retained in state ownership. In this way, responsibilities for the management and maintenance of public housing were decentralized to municipal governments. It was expected that the local governments would become the major administrators of housing policy and would be responsible for the provision of social housing. However, the transfer of properties was not accompanied by adequate financial means. The management and maintenance costs were, in most local governments, higher than revenues and housing became a heavy financial burden for the municipal budgets.

Some municipal properties were subject to restitution (re-privatization) and in following years were transferred to private owners. It was up to the discretion of local governments as far as what to do with the rest of the housing. There were no state regula-

tions, guidelines, or recommendations. Nothing like “right-to-buy” legislation was enacted and implemented in the Czech Republic. However, it was expected that municipalities would reflect local conditions and privatize part of the municipal housing while keeping the rest as social housing stock. Due to the financial difficulties, also under the influence of an overall privatization strategy, many municipalities decided to privatize their housing, thus contributing to the deregulation to the market.

The major shift that shaped the new face of the Czech housing system was the deregulation to market that included adjustment of landlord/tenant relationships, privatization and rent deregulation. An amendment of the Civil Code allowed for limited scale of market-based contractual relations in rented housing and helped to restore some crucial property rights. Privatization of housing has happened through general privatization policies and programs, namely through restitution. The government, furthermore, passed legislation that allowed for privatization of cooperative housing and opened new opportunities for sales of municipal housing. The last, but not least, cornerstone of the government approach to housing, aimed at the internal transformation of relations within the housing system, was gradual rent deregulation.

The old Communist system of housing allocation was changed from January 1992 by an amendment of the Civil Code. It specified, that the right of using a flat follows from the contract of lease, a written document signed by both landlord and tenant. The amendment introduced fixed-term leases. However, the original contracts with unlimited leases, which were signed during Communism, remained. They cannot be easily converted to fixed-term leases and this is seen as the major burden for the development of a real market environment in rental housing. The new contract is signed only when the apartment is vacated. The conditions for the termination of lease contracts (including the unlimited leases) specify that if a tenant does not agree, the landlord must seek resolution from the Court of Justice. The reasons can include, for instance, an overall reconstruction of property or a need of the owner to use the flat for himself or nearest relatives. In these cases, tenants must be given a replacement dwelling of the same standard. Tenants have to accept the new dwelling offered by the landlord, provided it fulfills the requirements concerning standards. In the case that the tenant does not respect basic rules, such as not paying the rent or subleasing the apartment without landlord approval, the landlord can give notice without the necessity to provide the replacement flat. After court approval, such tenants may be evicted. This legislation strongly impacts municipalities, which are huge landlords and most of their tenants have unlimited lease contracts.

The privatization of municipal housing started with restitution. In the restitution (re-privatization) process, properties confiscated by the Communist regime, or given to the Communist State under disadvantageous conditions between February 1948 and December 1990, have been given back to the original owners or their heirs. Most of these transfers were accomplished by the end of 1993. There is no exact statistical data

available, however, estimates say around 10% of the dwelling stock. Restitution has mostly impacted the central parts of towns and cities. For instance, in central Prague, 70–75% of all houses were returned (Sýkora, Šimoníčková, 1994). Re-privatized houses could immediately be marketed and the process was the most important impetus for the development of a real estate market in the Czech Republic. A high demand for commercial space in the center of large cities influenced a substantial transfer of residential space in re-privatized buildings to non-residential use, a trend that local governments only started to perceive as a negative effect by the end of the 1990s.

The Act on Ownership of Apartments and Non-Residential Premises, approved in April 1994, offered the possibility of selling individual dwellings in an apartment building. The ownership of a dwelling in an apartment building also includes shared responsibilities for communally used functions and spaces of the building, such as the roof, stairs or elevator. This legislation affected public and private sector rental housing as well as cooperative housing. It has an important impact on transfers of housing stock from the rental to the owner-occupied sector. Private and public rental housing, as well as cooperative housing, can be transformed into condominiums. From the local government perspective, it opened an opportunity for municipalities to sell individual flats. Before the approval of the Act on Ownership of Apartments and Non-Residential Premises they could only sell the whole residential buildings, usually to a cooperative formed by tenants [for an example of privatization procedures in Prague see Eskinasi 1995].

Municipalities can freely decide on the sale of housing received from the State in 1991. The amount of sales, price, method, etc. has been at the discretion of local governments. Therefore, different models of privatization have been applied with various outcomes. Most towns prefer sales of individual flats, however, large cities, such as Prague and Brno, prefer sales of entire residential buildings. About half of the former municipal housing stock was transferred to private ownership, with over 40% through sales of municipal housing and the rest by restitution. There are municipalities that have sold most of their housing and, on the other hand, municipalities that have not privatized at all.

Rent in the housing sector is regulated using unlimited leases for Czech citizens (so-called maximum basic rent). The rent in apartment houses completed after June 1993, and not supported by any state subsidy, is fully deregulated and can be determined freely by a mutual agreement of tenant and landlord. The same applies to rent paid by foreigners, which is also not limited by any regulation. Since July 1995, market rent can be charged for newly signed leases after a dwelling has become vacant. The rent is being deregulated step-by-step for both municipal and privately owned houses. The price paid for utilities such as water, natural gas and electricity, or services such as waste collection has been fully liberalized or deregulated at a rate faster than the net rent. There are no precise figures concerning the amount of dwellings that are subject to rent regulation. At present, it may be 20–25% of the country's dwelling stock with a much higher share in large cities.

The regulated rent was first increased in June 1992 by 100%. From 1994 to 1998 the ceiling for a maximum basic rent increase was lifted at a different speed, according to the population size of the municipality. The actual growth was calculated from the rate of inflation and a location coefficient (Table 2.8). The central government could, by its decision, further speed up the deregulation as happened, for instance, in 1997. Since 1995, an additional rent increase of up to 20% was allowed for towns with more than 50,000 inhabitants and up to 10% in smaller municipalities to differentiate rents in their areas, according to the quality of location. Rent can also be reduced by 15% and 10% respectively. The decision about the increase of the rent ceiling is at the discretion of each municipal authority.

Table 2.8
Rental Deregulation: Location Coefficient

Size Category of Municipality (Population)	Coefficient
Prague	1.19
Over 100,000	1.15
50,000–100,000	1.11
10,000–50,000	1.08
Below 10,000	1.06

SOURCE: Ministry of Regional Development.

From 1999 the rent ceiling has been raised at one flat rate for the whole country. The variant deregulation using higher speeds in larger settlements, ceased to exist. However, due to the fact of the already existing large differences between municipalities of various population sizes, the flat rate of percentage increase actually means a differentiated increase in rent per m². For instance, from July 1999 the rent ceiling was increased by 9.3% and that implied the increase of an average rent in the country by about CZK 100, while in Prague it was CZK 230. The maximum basic (regulated) rents in Prague are presently (July 2001–June 2002) CZK 35.60/m² (USD 1.2).

The average regulated rent has increased ten times in nominal prices and slightly more than three times in real prices between 1991 and 2002 (Table 2.9). There are, however, large differences between municipalities due to their population size. The rent actually paid is influenced, not only by the rent ceiling, but also by the socio-economic situation. The rent is below the rent ceiling in some towns affected by economic decline, where market rents are below the regulated rent. In 2000, the average net monthly rent in municipal housing in Prague was 2.65 times higher than in Ústí nad Labem (a community with 100,000 inhabitants in the center of North Bohemia, a region severely

affected by industrial decline and unemployment). Because the costs of services are not regionally very different, the average total expenditure for a municipal flat was 1.75 higher in Prague than in Ústí nad Labem.

Table 2.9
The Growth of the Average Maximum Regulated Rent
for an Average Apartment

Year	1989	1990	1991	1992	1993	1994	1995
Average regulated rent CZK/month	134	134	134	268	268	375	460
Annual growth	100.0	100.0	100.0	200.0	100.0	140.0	123.0
Growth since 1989	100.0	100.0	100.0	200.0	200.0	280.0	343.0

Year	1996	1997	1998	1999	2000	2001	2002
Average regulated rent CZK/month	580	864	1,082	1,183	1,237	1,286	1,338
Annual growth	126.0	149.0	125.0	109.3	104.6	104.0	104.0
Growth since 1989	433.0	645.0	807.0	882.8	923.0	959.7	998.5

Note: Model figures calculated by the Ministry for Regional Development (MMR).

From the 1st of January 1996, so called “adjusted regulated rents” can be applied to dwellings newly built with the use of state subsidies. The rent ceiling for adjusted rents is three times higher than in the case of the maximum basic rent. In dwellings reconstructed with the help of state subsidies, the adjusted rent can be twice as high as the maximum basic rent, provided that the same tenant still uses the dwelling. The reason for the introduction of adjusted rents was to give owners an opportunity to receive returns on their verified investments to new construction or reconstruction.

1.2.2 Contemporary National Housing Policy

After fundamental system changes in the first half of the 1990s, the Czech social and economic system has been transformed by spontaneous market-led changes. Political priorities broadened and alongside macroeconomic targets other issues appeared on the political agenda. Housing policy started to play a more important role. Beside some not-yet-accomplished transformation policies in housing, such as rent deregulation, other instruments of housing policy have been introduced, including housing allowances,

subject subsidies through support to mortgages and new object subsidies supporting new municipal housing construction, the provision of infrastructure and repair and modernization of dilapidated housing.

Czech housing policy is institutionally based at the housing policy section of the Ministry of Regional Development (MMR). Some measures are implemented by the Ministry of Labor and Social Affairs (housing allowances) and the Ministry of Finance (rent deregulation). From the end of 2000, some programs of the state housing policy are managed and operated by the newly established State Fund for Housing Development. It aims to support new housing construction, provision of technical infrastructure for housing development and reconstruction and modernization of housing stock, namely prefabricated technology buildings.

The contemporary housing policy is based on the Intentions and Measures of the Government of the Czech Republic in the Field of Housing approved by the Parliament in 1997 and the Housing Policy Strategy approved by the central government in 1999. Among other issues the Strategy lays out a stronger role for municipal governments in housing and housing policy. It declares that the housing needs of inhabitants appear on the local level and therefore the role of local governments in housing should be strengthened. The Housing Policy Strategy was updated in November 2001 (see Box 2.1 for SWOT analysis).

Box 2.1
SWOT Analysis of Czech Housing
(Selected Strengths and Weaknesses)

Strengths:

- *Good level of housing provision;*
- *Increasing quality of housing due to new construction and modernization;*
- *Transformation of housing policies nearly finished;*
- *Standard system of market-based housing finance;*
- *Developed set of housing policy measures.*

Weaknesses:

- *The spatial distribution of housing differs from the job supply;*
- *Under-maintenance and disrepair of a large segment of housing;*
- *Low levels of new housing construction;*
- *Social housing is not defined and the role of municipal housing is not clarified;*
- *Low affordability of home-ownership;*
- *Housing policy measures are not socially and regionally focused and mutually coordinated and thus are less effective;*
- *Uneven relationship between tenants and landlords.*

SOURCE: Adapted from MMR (2001) Housing Policy Strategy—updated version.

The 2001 Strategy states that the main housing problems include low levels of housing affordability, spatially uneven distribution of housing stock and under-maintenance and dilapidation of housing [MMR, 2001]. The uneven spatial economic and social development creates local and regional disparities between labor and housing markets. Consequently, there are growing regional and local differences in housing. Some of the existing housing policy measures are not efficient, because their influence is limited by some unfinished transformations and they also lack social and spatial focus due to their countrywide flat-rate application. There is also a greater need for coordination of housing policy measures applied by different ministries.

One of the main tasks is to strengthen the role of local governments in housing policy. The intent is to keep the centralized model of housing policy, including the decentralization of implementation for some housing policy programs, to local (municipal) and possibly also regional governments. The general aim is to create conditions that will allow every household to find housing corresponding to its needs and financial possibilities [MMR, 2001]. The general availability of housing can be improved by better land policies of local governments. There are limited possibilities to improve the affordability of owner-occupied housing, due to disparities between construction costs and household incomes. However, the central government can help through the development of legislation for non-profit rental housing. Another priority is the care for existing housing stock, its modernization, repair, reconstruction and regeneration of whole housing areas.

State support for housing has been substantially restructured during the 1990s. The former system of housing subsidies to fund construction ceased to exist and new programs aimed at the stimulation of new housing construction have been introduced. These include the support given for housing consumption (support for housing savings and mortgages) as well as support for the production of new housing. The State subsidizes construction of new municipal rental housing, housing for the elderly and gives provisions for technical infrastructure for all kinds of housing construction. Furthermore, a number of programs aimed at the repair and modernization of housing stock were introduced to solve problems with dilapidated housing stock and with the structural problems of houses built with prefabricated technology. The State also provides a long list of tax advantages, from tax deductions of mortgage interests to tax exemptions from property tax on privatized or newly built homes. Special programs were applied in specific instances such as to assist with the damages caused by the floods in 1997 (it will not be dealt with in this text). In general, there has been a change from the direct involvement of the State to the creation of a framework enabling housing development. The state financial support for housing has increased since the mid-1990s and in 2000 accounted for 0.9% of GDP and 2.8% of the state budget [MMR, 2001]. The programs of the state financial support to housing can be divided into three fields: (1) support for new housing construction, (2) support for modernization of housing, and (3) housing allowances.

The program for the support of municipal rental housing construction and technical infrastructure provision: Begun in 1995. Its aim is to provide support to local authorities to fulfill objectives concerning new housing construction, allowing the combination of state and local financial means with private capital. Support for the construction of new municipal rental housing should increase the availability and affordability of housing. The subsidy is given for the following: 1) construction of new municipal rental housing, construction of attic apartments in empty under-roof spaces, reconstruction of non-residential spaces to housing and reconstruction of dilapidated houses that have been vacant and uninhabited for at least 5 years; 2) technical infrastructure (engineering networks, sewage system and roads) on vacant land zoned for future housing construction of all forms (including private). The support for municipal rental housing has a maximum of CZK 320,000 (USD 10,666) per flat. The support for reconstruction of residential spaces that have not been used for more than 5 years may amount to CZK 200,000 (USD 6,666). The support for technical infrastructure has a maximum of CZK 80,000 (USD 2,666) per future flat. The combined support cannot exceed 50% of the expected investment costs. Construction on 5,000–8,000 flats, annually since 1995, has been implemented with the use of this program.

Program for the support of construction of housing with social care: Introduced in 1991. It provides subsidies to municipal governments for the construction of rental housing with a special social regime that consists of small apartments for the elderly and handicapped and a provision of social care. The support varies according to the size of settlement and can reach a maximum of CZK 700,000 (USD 23,000) per dwelling unit. The total amount of finance in this scheme has been declining since 1995.

Support for housing savings: Based on an Austrian and German model, it was introduced in 1993 to stimulate housing consumption. Each citizen can deposit monthly or annually a certain amount to housing savings banks. On top of the interest on the savings, the State gives a contribution equal to 25% of the annually deposited sum. However, the contribution is given at a maximum of CZK 4,500 (USD 150) per year. After five or six years, credit equal in value to the savings amount is available at 5–6% interest. Loans can be used for the purchase, construction or reconstruction of housing.

Support for mortgages: Provided in the form of interest subsidies for households that use mortgages to finance new housing construction or the purchase of a newly built dwelling. Mortgages have been provided by commercial banks since 1995. The interest subsidies are also provided to municipalities that build new homes. The interest subsidy changes annually, depending on the average interest rate of mortgages allocated in previous year. If the mortgage interest rate exceeds 10% the subsidy is 4%. Currently (2002), the interest subsidy is 1% as the average interest rate on newly allocated mortgages in 2001 was between 7 and 8%. Subsidies are limited to mortgages (or their parts) up to CZK 12,000 (USD 400) per m² of an apartment with a maximum of CZK 800,000 (USD 26,666) total. CZK 1.5 million (USD 50,000) is the maximum for a single-family house and

CZK 2 million (USD 66,666) for a multi-family house. From 1996 to the end of 2001, 19,897 dwellings were constructed using the state support for mortgages. In 2002, special interest subsidies were introduced to support the purchase of existing dwellings by young people below the age of 36.

Low interest loans for young starters on the housing market: Introduced in March 2002. May be provided to young people below the age of 36 for construction or purchase of new housing providing they have not already owned a private or cooperative dwelling. This loan is allocated as an additional measure to the mortgages supported by the State.

Program for the housing stock modernization (loans to municipal housing funds): Introduced in 1994 to support the reconstruction and modernization of dilapidated housing stock. Another program objective is to initiate the foundation of local funds aimed at the modernization of housing stock within towns. To be eligible for subsidy, the local authority must establish a municipal housing fund to which the State may contribute an interest-free loan for a period of 10 years. Aside from the modernization of local authority apartment buildings, this fund must provide loans to private owners of housing stock. A minimum of 20% has to be allocated to private owners at a maximum 7% interest rate. The amount of the state loan to municipal funds varies according to the population size of the municipality. There are three categories: 200–599, 600–2,999 and 3,000 or more inhabitants. About CZK 300 million (USD 10 million) have been allocated annually from the state budget to municipal housing funds since 1995. Local authorities usually stock housing funds from other sources, such as revenues from privatization, for instance. This form of state support is usually perceived as very efficient, as it allows for a combination of several sources and is an important tool by which private landlords may gain low-interest loans for the repair or modernization of their properties. From 2001, the State Fund for Housing Development has managed this program and the loans are provided at a low 3% interest rate.

Program for repairs of housing stock (prefabricated housing defects): Intended to help with necessary repairs of the most urgent technical defects (both of a static and safety character) that may cause emergencies in houses built with the use of prefabricated panel technology. Support may be provided to all owners of prefabricated buildings, i.e. local authorities, cooperatives, private firms and individuals. The program was announced in 1997 and the first subsidies were allocated from the state budget in 1999. It is implemented in the form of a grant, which may not exceed 40% of the budgeted costs. In average, the grant is around 32% of costs.

Program for repairs of prefabricated housing (modernization and reconstruction): Should help owners of prefabricated buildings (municipalities, cooperatives, condominiums, private rentals, etc.) with access to financial resources from commercial banks for repair, reconstruction and modernization needs. The support is provided in the form of an interest subsidy to commercial loans. Subsidies vary regionally. In economically weak

districts and areas severely impacted by economic restructuring, the subsidy is 5%. In districts that are also included in the state labor market policy the subsidy is 4% while in other areas it is 3%. The support is administered by the State Fund for Housing Development.

Program for regeneration of housing estates: Begun in 2000. It provides grants to municipalities and can cover up to 70% of the costs in the field of transport and technical infrastructure and the regeneration of public spaces in housing estates. The necessary condition for the allocation of subsidies is a prepared project of housing estate regeneration.

Program for support of the reduction of demands on energy in the heating of buildings: Supports technical alterations to apartment buildings with the aim of reducing fuel and energy consumption. Started in 1991, subsidies are allocated by the Czech Energy Agency. Support is provided to owners and co-owners of the buildings.

There are a number of possibilities for *tax relief*, such as income tax exemptions on yields from mortgage bonds, real estate tax exemption for newly built houses, real estate tax exemptions for restituted residential properties, real estate tax exemptions for privatized (formerly state, municipal or cooperative) apartments, real estate tax exemptions for properties that have changed from solid fuel heating to a more ecological format properties with improved heat insulation, etc.

Housing allowances: Introduced in 1993 to ease the burden of increasing rent. Initially, the subsidy was given to households in the rental sector for a maximum of two years. The household was expected to find cheaper accommodations and then move within this period of time. Since 1996, a new system of housing allowances, which is a part of the general social welfare assistance, has been in operation. Housing allowance for low-income households is provided to households whose total income does not exceed 1.6 times the subsistence level (with no regard to tenure). In 2000, the average monthly allowance was CZK 633 (USD 21) and it was allocated to about 331,000 households [MMR, 2001]. The allowance is, however, provided at a flat rate corresponding to a certain income category, while the housing costs are regionally calculated. The construction of the allowance does not take into account actual housing costs so households living in areas with high housing costs, such as Prague, receive the same subsidy as the same income household in a low cost region.

2. LOCAL GOVERNMENT HOUSING POLICIES

The information about the current housing objectives of local governments in the Czech Republic and their practices, through the application of various municipal housing policies, programs, and activities was obtained through a press screening, the use of research

and policy documents, interviews with selected public officials and a questionnaire survey. The questionnaire survey provided the broadest and most comprehensive view. Therefore, its results are used as the base that is accompanied by knowledge received from other sources.

The Local Government Housing Survey (LGHS) involved municipalities with 5,000 or more inhabitants. The aim of the questionnaire was to get a broad overview of the main issues in housing at a local level with a special focus on local government involvement in housing. The sample of municipalities with 5,000 or more inhabitants covers about two thirds of the country's population and dwelling stock and 87% of the dwellings in apartment houses. The inquiry was organized using a correspondence form through a mail survey. The survey was carried out in November and December 2001, with some municipalities responding in January and February 2002. The questionnaire was sent to 265 municipalities, 89 of whom filled in the questionnaires and sent them back, for a response rate of 33.6%. Table 2.10 shows the size of the targeted municipalities and gives the number and percent of the replies in accordance with the size categories of the municipalities. The highest response rate was reached in the category of largest towns, those with a population of over 100,000 inhabitants. The questionnaire was completed by the four largest cities in the Czech Republic: Prague (1,187,000 inhabitants), Brno (384,000), Ostrava (321,000) and Plzen (168,000). Survey results are presented in a form of simple non-weighted figures for the total sample of municipalities or as figures for each of the five population-size groups.

Table 2.10
Number of Targeted Municipalities and Response Rate
According to the Size Categories of the Municipalities

Population of Municipality	Number of Targeted Municipalities	Number of Responses	Response Rate [%]
5,000–9,999	134	38	28.4
10,000–24,999	81	27	33.3
25,000–49,999	28	14	50.0
50,000–99,999	17	6	35.3
100,000+	5	4	80.0
Total	265	89	33.6

SOURCE: LGHS.

2.1 Local Housing Policy Strategies and Objectives

2.1.1 Distribution of Housing Policy Tasks between the State and Local Governments

Local governments are important institutions in the Czech housing system. According to the Municipal Act, local governments are obliged to take care of the overall development of their territory, including housing. However, their means are limited. Their crucial powers are in municipal property management and physical planning. Municipalities have full and unrestricted ownership rights to their property including housing, so they can lease, sell or acquire real estate. In the field of physical planning and the control of the development process, municipalities approve physical plans and thus influence the location of housing developments, types of housing construction and the relationships between different land use functions.

The country consists of about 6,230 municipalities and 14 regions, each with elected representation. The capital city of Prague and other 16 so-called statutory towns can be further subdivided into boroughs (the decision is at their own discretion). Over 70% of the population is urban and 63.6% of the inhabitants live in towns and cities with populations over 5,000. At the same time, there are very small municipalities. 60% of the municipalities have less than 500 inhabitants and a further 20% have a population of between 500 and 1,000. Governments of such small municipalities are usually weak in both financial and professional matters.

The housing situation differs according to the size of the municipality, regional and general conditions of socio-economic development. There is also quite a distinct pattern in the relationship between housing type (family and apartment housing) and the size of the settlement. In small municipalities with less than 2,000 inhabitants, family houses accounted in 1991 for 83.8% of the permanently inhabited dwellings. In towns and cities with over 50,000 inhabitants, the situation was reversed (Table 2.11).

Table 2.11

Percentage of Dwellings in Apartment and Family Houses by Settlement Size [%]

Population	5,000– 10,000	10,000– 20,000	20,000– 50,000	50,000– 100,000	100,000+	Czech Republic
Apartment and other houses	55.2	68.2	76.2	82.0	86.0	58.8
Family houses	44.8	31.8	23.8	18.0	14.0	41.2

SOURCE: Czech Statistical Office (CSU), Census 1991

The Czech housing policy is centralized and municipalities are involved only in the implementation of some measures. The legislative power and financial allocation is in the hands of centralized state institutions. The role of local governments in the implementation and modification of state housing policies is very limited. Municipalities can, for instance, adjust the level of the maximum basic rent in a declared area or for individual buildings. The only central government housing policy financial support program that gives municipalities the right to decide about the distribution of money is the Program for the Housing Stock Modernization, from which loans are provided to municipal housing funds.

Despite limited legislative and economic means, there are several fields of the local government involvement in housing. Local governments are directly involved in the management of their own housing stock and they also influence non-municipal housing. The management of municipal housing includes policies, programs and activities towards both people (municipal tenants) and properties. Concerning tenants, the most important are allocation policies including preferences in access to housing provided to certain social groups. The allocation is closely associated with the local government rent setting policy. The physical property side includes maintenance (regular care including small repair) and modernization (large scale upgrading or regeneration). Besides the housing that municipality owns and wants to keep, local governments also contribute to municipal housing stock restructuring through demolition, new construction and sales (privatization).

Municipalities also create general conditions for non-municipal housing. For instance, strategic plans declare major objectives for future economic and social development that also determine housing. Physical planning regulates types of housing that could be built in certain location. Municipal land policy can provide land with infrastructure for new housing construction. Cities can regulate conversion of housing to non-residential uses in their inner parts threatened by commercialization or even disallow roof-extensions in architecturally valuable historic centers. Municipal housing policies often affect non-municipal housing through the provision of subsidies for housing reconstruction or new construction. Local governments also provide the general residential environment in various types of neighborhoods. Their housing strategies are involved in physical and economic neighborhood changes through housing projects and neighborhood regeneration, rehabilitation, renewal or revitalization. Local governments attempt to deal with such housing and socio-spatial issues as segregation or residualization.

2.1.2 Local Government Housing Institutions and Policies

On the municipal level, there are often vice-mayors or councilors responsible for housing. Furthermore, local governments have specialized departments that care for municipal housing. The majority of the questionnaires (64%) were filled in by clerks from various

departments of municipal administration and as many as 29.1% by top municipal executives (Table 2.12). There is striking difference in the structure of respondents between small municipalities and the rest of sample. In towns with 10,000 or more inhabitants, over three-quarters of the questionnaires were answered by departments involved in municipal administration and the rest by top executives. In small towns with populations of fewer than 10,000, there was much higher involvement of top executives (39.5%). In some cases, answers came from management companies.

Table 2.12
Types of Respondents in Local Government Housing Survey

Type of Respondent/ Population	5,000– 10,000	10,000– 25,000	25,000– 50,000	50,000– 100,000	100,000+	Total
Top executives (Mayor, Vice-mayor, General Secretary)	34.2	18.5	21.4	16.7	25.0	25.8
Departments in municipal administration	47.4	77.8	71.4	83.3	75.0	64.0
Management companies	10.5	0.0	0.0	0.0	0.0	4.5
Top executive and departments	5.3	0.0	0.0	0.0	0.0	2.2
Top executive and management company	0.0	3.7	0.0	0.0	0.0	1.1
Not identified	2.6	0.0	7.1	0.0	0.0	2.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: LGHS

It is interesting to note which departments in the municipal administration answered the questionnaire. It indicates the perspective from which housing issues and housing policy are treated on the municipal level. Housing is mostly managed by technically oriented departments of property management and municipal investments (37.1%), quite often by specialized housing departments, sometimes in combination with other fields such as transportation (18%) and sometimes the housing issue is administered within other usually broadly defined departments such as municipal economy and services (10.1%).

One third of the municipalities (31.5%) have their own housing policy strategy and a further 9% elaborated on housing policy strategies that have not yet been approved (Table 2.13). Of the towns, 58.4% do not have a housing policy strategy document. However, they use certain objectives, principles, rules and procedures to solve housing issues within their territory. The survey has shown a substantial increase in the share of municipalities with a specific housing policy strategy in comparison to the survey

completed in the same sample of municipalities in 1997, when only 24% of the local governments had housing policy strategies [Dupal, 2001 and Terplan, 1998]. As the population size of a municipality increases there is a corresponding higher probability of it having an approved housing policy strategy. Half of the towns with 25,000 and more inhabitants have a housing policy as a program approved by political representation, while three-quarters of the municipalities with less than 25,000 inhabitants do not.

Table 2.13
Municipal Housing Policy Strategy

Does your local government have its own housing policy strategy?	Share [%]
Housing policy strategy approved by the Municipal Council	31.5
Housing policy strategy not yet approved	9.0
No coherent housing policy strategy; use of certain objectives, principles and rules to solve housing issues	58.4
No housing policy	1.1
Total	100.0

SOURCE: LGHS.

2.1.3 Local Housing Problems and Housing Policy Objectives

The local government approach to housing is conditioned by the specific situation that is formed by a combination of general social and economic development and specific housing issues on the local and national level. The survey attempted to identify the most pressing housing problems on the municipal level as seen by the municipalities. Each municipality could list up to five main issues; most towns listed just one, two or three major problems. In most cases, municipalities identified very simple one-dimensional problems. However, some local governments attempted to show a complexity of local housing issues pointing to a wider context, such as heritage from previous decades or contemporary economic and social situation.

The major housing problems identified by the municipalities can be divided into four major areas (Table 2.14): Housing shortage and affordability; provision of municipal housing; citizens; and the national housing policy framework. Among these the most pressing problems are:

- 1) Housing shortage (general, young households, low income) and housing affordability;
- 2) Dilapidated housing fund and shortage of funds for maintenance and reconstruction;
- 3) Rent arrears and slow process of court approved evictions.

Table 2.14
Main Local Housing Problems

Field	Percentage of Municipalities [%]
<i>Housing shortage and affordability</i>	
• General housing shortage	25.8
• Shortage of housing for young families	25.8
• Shortage of housing for low-income people	14.6
• Shortage of housing for elderly	7.9
• Shortage of housing for special cases	6.7
• Shortage of shelter housing for those who do not pay rent	12.4
• Housing affordability (market provision of housing)	14.6
<i>Municipal housing stock maintenance, modernization and provision</i>	
• Disrepair of municipal housing stock	18.0
• Poor residential environment of housing estates	4.5
• Shortage of funds for maintenance and modernization	11.2
• Shortage of funds for new construction	10.1
• Availability of land for new housing construction	7.9
• Insufficient housing production	5.6
<i>Citizens</i>	
• Citizens passivity	5.6
• Socially problematic behavior	5.6
• Rent arrears	12.4
• Black market	5.6
<i>National framework for local housing</i>	
• State housing policy	11.2
• Rent regulation	18.0
• Strong tenant protection	9.0
• Slowness of juridical system in solving rent arrears	14.6

NOTE: Each municipality could list a maximum of five problems, but not every municipality used this option. Housing problems were amalgamated to more general categories regardless of whether they were listed first or last. The table shows the percent of municipalities that mentioned problems in the above listed categories. Only problems that were identified by at least four municipalities are listed.

SOURCE: LGHS.

The major problem stated by municipalities was housing shortage. For 25.8% of municipalities there is a general housing shortage. Many municipalities identified

structural shortages, namely housing for young families and low-income households. Altogether, two-thirds of all municipalities listed housing shortages among the most pressing local housing problems. Various municipalities understand the general housing shortage differently. For some, it is just an overall lack of housing of all kinds of tenure, for others it is a lack of affordable housing. Some municipalities take housing shortage to mean a lack of available municipal dwellings compared to the large amount of requests for housing from citizens.

Many municipalities identified structural shortages of housing for certain population groups, rather than a general shortage. Young families with children especially face housing shortages and municipalities recognise the lack of cheap housing that would allow them to start their housing career (25.8% of local governments). Municipalities also see a shortage of housing for low-income people (14.6%) and elderly (7.9%).

Another important field of local housing problems is maintenance and modernization of existing municipal housing. Many municipalities own housing stock in poor condition. This can be both old, pre-war housing in inner areas as well as peripheral estates of prefabricated housing from the Communist era. There are municipalities that perceive the large housing estates as whole entities as an important local housing problem. Municipalities stated a lack of funds for maintenance, repair and modernization of municipal housing and relate obsolete municipal housing to a low level of regulated rent that is not sufficient to cover the cost of reconstruction.

Municipalities also complain about those citizens that cause many local housing problems; the major issue being rent arrears (12.4% of municipalities). Some municipalities complained about their tenants subletting municipal apartments at market rates to a third party, i.e. the so-called "black market". There are municipalities that see a high percentage of people with inappropriate and socially unacceptable behavior as a problem. Some of them point directly to conflicts and bad experiences with Roma people (Gypsies). Local governments also point to the passivity of the citizens. People do not attempt to solve their housing problems for themselves or jointly with the municipality. They prefer to wait on the list for municipal housing allocation. Citizens also do not participate in housing management. They are not willing to actively participate, cooperate with the municipality and financially contribute to the solution of their housing situation.

Many local governments link their housing problems to the national housing legislative framework. The major issue is the central rent regulation. It especially has implications for revenues that are not sufficient for housing rehabilitation and modernization. Rent regulation is also an important factor behind the black market and causes market distortions. Another crucial issue is uneven landlord-tenant relations and, in particular, the strong protection of tenants that inhibits property rights of the owner. Municipalities criticize the transfer of lease to relatives that is possible without landlord approval, compulsory provision of replacement apartments and the limited

right to refuse new residents accommodated by a tenant in leased apartment. Probably the major issues in landlord-tenant relations concern rent arrears and tenants with inappropriate social behavior. The situation is worsened by the approach of the judicial system to the solution of conflicts between municipalities and tenants, especially in the case of rent arrears. Many municipalities complain about the slowness of the courts, because it results in increased debts on rents and blocks further allocation of dwellings to people in need.

Municipalities pointed to the various deficiencies in the national housing policy. These include: Transfer of housing responsibilities and costs from the State to municipalities; the small financial support from the State to municipalities; insufficient subsidies for new rental housing construction; low support for construction of private owner-occupied housing; non-existent subsidies for private landlords providing social housing; missing legislation for non-profit housing associations; complicated administrative procedures for housing policy programs; and unclear housing terminology. The State transferred old and dilapidated housing to municipalities and does not provide adequate financial support for their reconstruction.

The involvement of the majority of municipalities in housing is governed by explicitly declared housing objectives, whether they stem from a housing policy strategy approved by political representation (municipal assembly) or they are just a set of rules and procedures applied in the daily practice of municipal administration. There are towns that do not have any housing objectives (6.7%), nevertheless, they are involved in housing through privatization, construction of new dwellings for elderly, or reconstruction of individual municipal residential properties. There are various ideologies behind the definition of housing objectives in the different municipalities. Some municipalities believe in a fully deregulated housing market with all of the responsibilities for housing at the level of the individual with the application of some measures on the municipal level. Other municipalities prefer a stronger intervention to housing and call for financially stronger involvement of the State.

Municipalities were asked to provide a list of the most important housing objectives and rank them according to their importance. The declared municipal housing objectives can be divided into five fields: 1) new housing construction; 2) housing provision (especially for the socially weak); 3) maintenance and modernization of housing stock; 4) municipal housing management; 5) wider goals of housing (Table 2.15).

Nearly all municipalities have objectives that deal with new housing construction. Furthermore, these objectives have often been ranked in the first place. The second most important field of local government housing objectives is the provision of housing for specific groups of the population. Another area of local government housing objectives is housing maintenance and modernization. Most municipalities aim at improving the quality of the housing stock. It often involves both municipal housing as well as housing in other forms of ownership. The field of municipal housing management

Table 2.15
The Housing Objectives of Municipal Governments

Field	Percent of Municipalities
<i>New housing construction</i>	
• Support to all kinds of new housing construction	21.3
• New municipal housing construction	25.8
• New municipal housing construction with the financial participation of future tenants	13.5
• New municipal dwellings in loft spaces or roof-extensions	11.2
• Support to new private housing construction	23.6
• Preparation of land for new housing construction	10.1
<i>Provision of housing</i>	
• Provision of housing for young families	24.7
• Provision of housing for low-income and socially vulnerable people	14.6
• Provision of housing for elderly	23.6
• Provision of replacement shelter housing for those who do not pay rent and whose behavior is socially unacceptable	9.0
• Provision of dormitories for the homeless	5.6
<i>Housing maintenance and modernization</i>	
• Improved quality of existing housing stock	15.7
• Repair and modernization of housing stock	30.3
• Maintenance and necessary repairs of municipal housing stock	12.4
• Improved quality of residential environment	9.0
<i>Municipal housing management</i>	
• Privatization	21.3
• Efficient management of municipal housing	10.1
• Participation of tenants	4.5
<i>Wider goals of housing</i>	
• Promotion of local housing market development	6.7
• Maintain social mix and prevent segregation	4.5
• Provision of housing to attract immigration	3.4

NOTE: Each municipality could list a maximum of five objectives, but not every municipality used this option. Objectives were amalgamated to more general categories, regardless to whether they were listed first or last. The table shows the percent of municipalities that provided objectives in the above listed categories.

SOURCE: LGHS.

and its improvement (besides efforts in the area of repair and modernization) does not belong among the often declared housing objectives. Many municipalities first aim at restructuring or, better said, downsizing of municipal housing stock through privatization with improved management as the next step. After a decade of municipal housing sales, privatization is an important objective for 21.3% of the local governments. Importantly, if privatization appears among the objectives, it is often in the first place. There is rather a small share of local governments that declared objectives dealing with the more efficient management of municipal housing (ranging from the preparation of guidelines for more efficient management of municipal housing to specific housing allocation policies). While these spheres are seen as major problems in local government housing, municipalities do not declare objectives that would target them.

The overwhelming majority of objectives was focused internally on housing and was not related to wider city policies in economic, social or spatial development. For instance, municipalities state that their goal is to build new housing. However, they do not explain why they need new housing. In some instances, the reason can be the inherited general shortage, in others, structural shortages such as missing housing for young or elderly and, for some towns, new housing is a tool used in a local economic development policy for attracting labor to their booming local economy. Just a few municipalities declared wider goals of housing. The most often cited was the effort to establish and promote a local housing market, mostly through sales of municipal housing to private parties but also through constant pressure on the central government to terminate its rent regulation. Some municipalities aim at maintenance of a social mix in their town and its areas and to prevent segregation.

2.2 Municipal Housing

2.2.1 Management of Municipal Housing

Two thirds (67.3) of municipalities manage housing in their ownership by themselves or through public organizations or private firms established, owned and fully controlled by municipal office. Public organizations established municipality are the most usual types of institutions responsible for the management of municipal housing as they are the sole responsible organization in 25.8% of municipalities. An alternative is the establishment of private firm (usually a limited liability company or stock holding company), fully or partially owned and controlled by local government, that cares for housing (21.3% of municipalities). Approximately 19.3% of local governments manage municipal housing directly through municipal administration. This mode is used in smaller towns with populations below 25,000. The housing stock in 22.5% of municipalities is managed

only by private firms. Usually it is just one firm (16.9%) and in 5.6% of cases more firms. In 12.4% of municipalities, housing management is divided between two or more types of organizations. This is namely the case in large cities, where the responsibility for the management is decentralized to a number of boroughs and each of them has its own structure for housing management (especially Prague and Brno).

Table 2.16

Institutions Responsible for the Management and Maintenance of Municipal Housing Stock (Share in % for the Whole Sample and Size Categories)

Population Size Category	5,000–10,000	10,000–25,000	25,000–50,000	50,000–100,000	100,000+	Total
<i>Municipal office</i>	21.1	33.3	0.0	0.0	0.0	19.1
<i>Public organization established by municipality</i>	26.3	25.9	28.6	33.3	0.0	25.8
<i>Private firm in municipal ownership</i>	26.3	18.5	21.4	16.7	0.0	21.3
<i>One private firm</i>	18.4	14.8	28.6	0.0	0.0	16.9
<i>More private firms</i>	2.6	0.0	21.4	16.7	0.0	5.6
Municipal office and public organization	2.6	0.0	0.0	0.0	0.0	1.1
Municipal office, public organization and several private firms	0.0	0.0	0.0	0.0	50.0	2.2
Municipal office and several private firms	0.0	0.0	0.0	16.7	0.0	1.1
Public organization and one private firm	2.6	0.0	0.0	0.0	0.0	1.1
Public organization and several private firms	0.0	7.4	0.0	16.7	50.0	5.6
Private firm in municipal ownership and several private firms	0.0	0.0	0.0	16.7	0.0	1.1
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

SOURCE: LGHS.

Research undertaken by The Institute for Territorial Development (ÚUR 2001) in towns and cities with 10 thousand or more inhabitants provides a somewhat different picture (Table 2.17). The research surveyed the share of municipal dwellings managed by particular kind of firms. Private firms manage 67% of dwellings. Our research has shown that private firms were contracted only in one third of the municipalities.

However, they manage large parts of housing stock in major cities. Therefore, the share of dwellings managed by private firms is much higher than the share of municipalities that use private firms for municipal housing management.

Table 2.17
Share of Dwellings According to the Management Subject

Type of Management	Share of Dwellings [%]
Municipal office	14.1
Public organization established by municipality	7.8
Private firm in full or partial municipal ownership	7.5
Private firms	67.0
Other	4.1

SOURCE: URM 2001, p.27.

The property management is realized in an ad hoc manner by many municipalities involving day-to-day solutions to emergency issues. Some municipalities attempt to organize certain regular and structured bases for property management that would involve, for instance, regular inspection of the physical state of buildings. More advanced methods, such as a strategic portfolio management, usually are not known, and not practiced. Some local governments, such as Prague 1 (utilizing foreign advice), attempted to assemble basic information about their properties to produce a database of its buildings with basic technical and economic characteristics (passport for each property). This step is a necessary precondition for more strategic decision-making in municipal property portfolio management and should, for instance, help the selection of properties for privatization.

The restructuring of a municipal housing portfolio has been one of the most important policies applied by local governments through the 1990s. The number of municipal dwellings in towns with 10,000 or more inhabitants declined by 41% between 1991 and 2000 [ÚUR, 2001]. There were three major trends of change in the municipal housing stock. Firstly, municipalities had to return some housing to people who claimed them in restitution. This change happened mostly in the first half of the 1990s and had been ordered by national legislation and local governments could not influence this process. Secondly, municipalities have been selling some of the remaining housing through privatization. Privatization developed only in the second half of the 1990s and has advanced especially since 1997. In 1997, 28.8% of the municipalities with a population of 5,000 or more had not privatized a single flat [Terplan, 1998]. Our research showed that this share declined to 5% in 2002. By the end of 2000, 50% of the 1991 municipal housing stock was privatized either due to restitution or through sales organized by municipal governments. Local governments planned further privatization

of about half of the housing stock they owned in 2000 [ÚUR, 2001]. Thirdly, municipalities are involved in new housing construction. Dwellings that had been newly built in 1991–2000 account for 4% of the original 1991 housing stock and 7% of municipal housing stock in 2000 (calculation based on data published in ÚUR 2001).

2.2.2 Municipal Housing Allocation and the Black Market

Municipalities allocate both existing vacant flats and newly built dwellings. However, in 2000 and 2001, 21.3% of the municipalities provided only existing vacant dwellings, as there was no new construction. The annual share of allocated flats from the total number of municipal dwellings differs. Usually it is below 1%, yet in 16.9% of the municipalities it was between 1 and 5% and 11.2% of the local governments allocated over 5% from the municipal stock. The average annual share of re-lets from the total municipal housing stock was 2.9% in 2000 and decreased by one third in 2001. The low level of turnover was also observed by ÚUR (2001). According to this report, less than 2% of the municipal dwelling stock in towns and cities with 10,000 or more inhabitants were allocated in 1999 and 2000.

Local governments apply very different methods of municipal housing allocation (waiting lists, discretionary allocation, lottery, highest-bid and auctions). The most common method is the waiting list, which is used by 52.8% of the local governments. One third of these municipalities use waiting lists exclusively, without application of other ways of allocation. In the remaining municipalities, the waiting lists are accompanied by other approaches, usually used for allocation of newly built housing. Another crucial issue that is solved differently by various local governments is the ranking of households on waiting lists. Besides the date of application, municipalities usually consider a number of characteristics such as current housing situation of applicant, social situation, permanent residence in municipality and sometimes profession of applicant (preference is made for those from the public sector such as physicians, teachers, policemen, etc.). Several municipalities that use waiting lists (11.2%) allocate dwellings to preferred professions directly without even placing them on the waiting list. Flats from waiting lists are mostly allocated for regulated rents.

41.6% of towns from our sample do not use waiting lists and allocate dwellings to applicants selected by a housing commission (decision is usually confirmed by the Municipal Council). The selection procedure is based on similar criteria, as in the case of waiting lists, namely considering the social and housing situation of applicants. However, in a number of instances, dwellings are in this way allocated to applicants that can accept pre-pay rent conditions (usually 5 years in advance). This concerns especially newly built housing and is used by 11.2% of municipalities.

The highest-bid method, where the decisive factor is the highest financial offer from the applicant, is also used by 20.2% of local governments. It is usually realized through a bid in a written application (so-called envelope method). This approach is not usually used as a universal method for the whole municipal housing stock. It is namely applied for the allocation of newly built housing and selected dwellings (usually better or luxurious) from the existing housing stock. There are also local governments that offer dwellings vacated by court-approved order and to which there is residual debt on rents. These dwellings are offered under the condition that the applicant will first cover the debt and secondly will add a certain sum of money as a pre-paid rent. A few municipalities use a lottery. Usually, applications are divided into groups, and from these some are randomly selected.

The average time from application to the allocation of municipal dwelling for a household of two adults and one newly born child, where only one adult person is earning the country's average salary, is 4.6 years (55 months). There are striking differences between municipalities. In several towns, the waiting time is less than one year, while the longest waiting times are around 10 years.

There were no vacancies on the date of the questionnaire inquiry in the majority of municipalities (68.5%). Of the towns, 30.3% had several vacant dwellings, but the share of these exceeded 1% of the total municipal dwelling stock in only one case. As most towns have no vacancies they also do not have any rent loss. In 2000 and 2001, there were just 4.5% of municipalities with a rent loss through vacancies exceeding 1% of the gross rent roll.

Many municipalities have problems with the so-called black market. There are two basic modes in which this black market operates. The first one is an illegal sublease by municipal tenants to a third party without informing the owner (municipality). The illegal tenant pays the rent and utilities as well as extra money to the legal tenant. The local government does not receive any share of this extra payment. In this case the local government does not suffer any losses, in comparison to the situation where the flat is used by a person who has a contract with the municipality. However, letting the flat indicates that this person has a place to live and, therefore, should return the dwelling to the municipality for local government disposal. Illegal subletting limits the property rights of the municipality to allocate municipal dwellings to people on waiting lists. Furthermore, if the flat in question is properly vacated, then a new contract could be signed on an unlimited lease. Therefore, the municipality does suffer financial loss through illegal subleases.

The second mode of the black market is in the guise of transfers of usage rights. People can exchange flats, provided owners agree with the exchange. Swapping a small flat for a larger one (or the other way around) is quite a common practice. It usually involves some sort of financial compensation for an extra room gained through such a transaction. This compensation is not any official transfer, it is not taxed, the municipality

does not benefit from it and it is a widely tolerated practice. However, there are people, who have a place to live (for instance they have built a new suburban family house) but do not want to return their municipal flat (for which they have a time-unlimited lease) back to the local government. Instead of illegal subletting for steady but risky returns, they prefer an illegal “sale“ of the lease contract for the municipal apartment to any interested party. It can be realized as a fictitious exchange of the municipal apartment for another one that exists only on a paper but not in reality. Such fictitious exchanges are often orchestrated by real estate agencies. As municipalities start to monitor such exchanges more carefully, another option is to exchange the municipal apartment for an existing flat that is used for many such transactions by the real estate agency that helps to organize such business. After the exchange is approved, the former municipal tenant will receive financial compensation from the new tenant, who happily and relatively cheaply gained low-rent municipal housing while the real estate agency benefits from a contract fee. The other flat used for the transaction is again at the disposal of the real estate firm to realize another black market sale of a municipal rental flat.

The black market is one of the issues which most local governments complain about but do very little or nothing about. Just a few towns attempt to identify illegal subleases and do not allow exchange of municipal apartments for non-existent dwellings or compensations. Most municipalities do not exercise their property rights. Especially because the identification of illegal subleases requires fieldwork in the municipal properties and cannot be handled using only paper work in the offices of the municipal administration.

2.2.3 Rent Setting and Arrears

There are four basic types of rent used by the local governments. A large share of their housing stock is subject to rent regulation and they cannot ask for more than the maximum basic rent that is regulated by the central government. In newly built apartments and reconstructed flats the local governments can apply an adjusted regulated rent that can be three (newly built) or two (reconstructed) times higher than the maximum basic rent. Municipalities can set rents freely in the case of allocated vacant flats or housing newly built without the use of state subsidies. In this instance, municipalities can use rent in conformity with current market levels (market rent). In some specific cases, municipalities allocate dwellings for rent that is lower than it would be on the free market (contract rent). This applies, for instance, in the case of housing allocated to people with preferred professions desired by the city. Municipalities can also use such rent contracts for dwellings allocated to low-income or young families, with the actual rent being far below the local market levels.

All municipalities use the maximum basic regulated rents (rent ceiling). Most municipalities (73.6%) also use adjusted regulated rents, which are usually applied in a smaller part of their housing stock. Market rents are utilized by a quarter of the local governments and 11.5% of the municipalities use contract rents. There are striking differences between local governments in the application of the various rent-setting procedures and the share of housing stock to which they are applied. A quarter of the local governments (25.3%) use the maximum basic regulated rent exclusively. This is the major mode used in the lowest population size category of municipalities, those with a population between 5,000–10,000 inhabitants (36.2% of the local governments). Many municipalities (39.0%) use a combination of maximum basic regulated rent for the majority of their dwellings and adjusted regulated rent for part of their stock. The third largest group (29.9%) are local governments that, besides the maximum basic regulated rent for the majority of their dwellings and adjusted regulated rents for new and modernized housing stock, they also use market rent (20.7%) or contract rent (6.9%) or both of these types (2.3%) usually in smaller segments of their housing. The remaining municipalities use specific types of combinations of rent setting. According to the survey made by ÚUR (2001) in all towns and cities with 10,000 or more inhabitants, maximum basic regulated rent is used for 96% of the municipal dwellings, adjusted regulated rent in 2% of the dwelling stock and the remaining 2% of the dwellings are allocated for contract rent.

The level of maximum basic regulated rent in most municipalities is lower than the market rental price. There are exceptions in towns affected by economic problems and some small peripheral and declining towns. In our survey we asked municipalities to estimate the ratio between the usual market rent for 1 m² of the locally most common type of dwelling (such as a two bedroom flat in prefabricated multifamily house) and the maximum basic regulated rent. The answer was provided by 61.2% of local governments. On average, market rents are 244.5% of maximum basic regulated rents. However, there are huge differences between localities.

One of the important problems that faces nearly all municipalities (96.6% in 2000 and 97.8% in 2001 from our sample) are rent arrears. According to ÚUR (2001) the average share of tenants that did not pay all housing costs (rents and services) in towns and cities with 10,000 or more inhabitants was 31% in 1999 and 2000. The worst situation among the large cities was in Ústí nad Labem, a regional center in northern Bohemia, where 62% of the tenants owed payments: 21% of them were temporarily non-payers and 41% had owed money for an extended term. In about one quarter of towns surveyed, the total cumulative rent arrears accounted for over 10% of the possible gross rent roll in 2000 (Table 2.18). The worst situation was in the industrial towns of North Moravia, other towns affected by economic decline and also in one of Prague's boroughs with a large housing estate (from 26 to 38%). The average share of rent arrears on the gross rent roll was 8.15% in 2000 and 8.29% in 2001.

Table 2.18
The Share of Rent Arrears from the Possible Total Gross Rent Roll

Share of Rent Arrears	Share of Municipalities [%]	
	2000	2001
Below 10%	74.4	75.9
Over 10%	25.6	24.1

SOURCE: LGHS.

How do municipalities deal with rent arrears? Firstly, they send notices/requests for payment to tenants not paying rent (34% of municipalities), invite them for consultations with local government administration (15%) and attempt to negotiate a payment schedule (20%). Some municipalities (6%) do not charge a penalty if the debt is paid according to such an agreement. What if settlement is not achieved? Of the towns, 16% make agreements with the welfare (social benefits) department concerning the transfer of welfare payments from tenant to municipality. Municipalities usually do not provide maintenance and repairs in flats with debts. Furthermore, there are local governments that disconnect hot water, electricity, and cable TV. Municipalities also do not allow any exchange of apartments before the debt is repaid. 8% of towns use specialized firms to solve rent arrears. Some local governments also publish lists of people with debts above a certain limit.

If all these measures do not help, municipalities seek resolution through the courts. If the debt is not paid the court will agree to a termination of the lease contract. Tenants receive notice. If the tenant does not leave and pay the debt, the municipality will seek court approval to remove the tenant and confiscate remaining property to cover some of the debt. The tenant will be removed without right to any accommodation or with only a possibility for very simple shelter. In special instances, such as a family with children, the tenant can receive a replacement flat. The number of flats in which local governments did seek court resolution in 1999 and 2000 accounted for about one percent of the municipal housing stock and the execution of such was used in 0.3% of the dwelling stock [ÚUR, 2001].

When a tenant is evicted, debts usually remain. At times these can be taken from the income of a former tenant, however, this can be quite a lengthy process. Some local governments cover the debts from rent arrears by accepting bids for emptied flats including the debt. Whoever offers the highest amount will pay this sum of money and, in exchange, receive a lease at maximum regulated rent. This strategy is used, for instance, by the local government in Prague 13, a borough with a majority of dwellings in prefabricated housing estates. Local governments, in this way, transfer responsibility for their own inability to deal with rent arrears to new tenants. Vacant dwellings are

allocated at the highest bid to people with financial means and are not available for allocation to those in the most desperate housing need.

Provided there are high debts, the most effective way is to take the indebted tenants to court. This is usually quite a lengthy procedure. Therefore, the best strategy is to take action against rent arrears right at the beginning, when the problem emerges. Unfortunately, most municipalities have been quite passive and only started to fight rent arrears when debts were so high that low-income people were not able to pay them back. As prevention, some towns approve new housing lease contracts only on time-limited terms. If tenants fulfill their obligations, then lease contracts are extended. The fight with rent arrears would be more effective if the strong protection of tenants was adjusted so that it would be easier for the owner to exercise property rights towards tenants that do not fulfill obligations stemming from lease contracts.

2.2.4 Privatization of Municipal Housing

Housing which was not restituted and remained in municipal ownership can be privatized. Methods of privatization differ substantially among municipalities, as there are no central government rules to guide the process. Prior to 1994, only whole houses could be privatized. Since 1994, when the Act on Ownership of Apartments and Non-Residential Premises was approved, municipalities have been able to sell individual apartments. The privatization of municipal housing has developed especially since 1997. While some municipalities have already finished their sales, many did not privatize at all.

Privatization of municipal housing is an important strategy in local housing policy. Why privatize? Some municipalities intend to stimulate the development of a local housing market. "Selling part of the housing stock owned by the Brno municipality can help the creation of a market" is, for instance, stated in the General Housing Plan of Brno [Lahoda, *et al.*, 1999]. Some towns expect better care for property that is under owner-occupation that would contribute to an overall urban revitalization. While municipalities do not have sufficient financial sources for reconstruction, through privatization they can transfer this responsibility, as well as privilege, to new owners whom are expected to be better owners than the public administrators. Through privatization, municipalities obtain funds that may be used for the reconstruction of the housing that remains in municipal ownership. They usually set the amount and structure of apartments for sale and/or apartments that should be kept in municipal hands. However, the research of ÚUR (2000) shows that only 53% of the funds gained in privatization are used for housing purposes. In many municipalities, the main reason for privatization is to increase revenues to local budgets.

Municipalities usually privatize housing only by offering it to sitting tenants. There are also local governments that offer dwellings for sale to third parties, provided that the

current tenants are not interested in the privatization. The housing is usually offered for a discounted price. Discounts can be high, for instance in Sokolov, where dwellings in prefabricated housing were privatized at 80% discounts. The discount can vary between different types of housing. In Prague, for instance, higher discounts are given for prefabricated housing and lower ones for brick buildings [Eskinasi, 1995]. From the respondents of our survey, nearly all municipalities have been involved in privatization of municipal housing. Nearly one quarter of the municipalities had already finished with their sales, while over 70% of the local governments continue with privatization plans.

Table 2.19
Privatization of Municipal Housing

The State of Privatization	Share of Municipalities [%]
Privatization has already finished	22.5
Privatization is continuing	71.9
Privatization is being prepared	2.2
Privatization has not happened and is not planned	3.4

SOURCE: LGHS.

Nearly half of the municipalities privatized by both ways, selling whole buildings as well as individual dwellings. As the sale of individual dwellings could be realized only since the mid-1990s, there may be municipalities that started earlier with sales of whole buildings and later continued with the sales of individual flats. Of the local governments, 35% privatized only single dwellings. These are local governments that started their sales after the approval of condominium legislation in 1994 that allowed for the subdivision of building ownership for sale. Still, 17.4% of the local governments privatized only whole buildings. For many local governments, this is the best strategy. The sale of individual flats often lead to a hybrid ownership as some tenants purchase their dwellings while others do not want to privatize and the flats remain in municipal hands. The management of apartment houses with mixed private and municipal ownership is then complicated. This reason led some local governments to terminate sales of individual flats and continue with privatization only through sales of entire buildings.

On average, municipalities have sold 41.5% of their original housing stock. However, there are huge differences between local governments. Approximately 6.8% of the municipalities have not privatized a single unit yet. However, some of them are preparing for housing sales. There was no municipality that had sold all housing. Towns usually keep at least a minimum share. An exception is the north Bohemian town Teplice (who, incidentally, did not answer our questionnaire) which, in eight years, sold all their

municipal housing except for houses providing care for the elderly. Sales of 20% to 60% of the original dwellings are the norm. Larger towns and cities usually privatized a substantial share of their housing but, at the same time, keep a sizable part in their ownership. There is no town with a population of over 50,000 inhabitants that has not privatized some and none that sold over three quarters of their dwellings. Among the smaller towns, the situation is more varied. In the smallest towns, in the size category from 5,000-10,000 inhabitants, there are local governments that privatized extensively, as much as over 80% of the housing, while there are municipalities that have not privatized at all. It can be expected that with further privatization the share of privatized dwellings will increase over the next few years. Towns and cities with over 10,000 inhabitants plan to privatize 71% of their original dwelling stock [ÚUR, 2001].

Table 2.20

Percent of Privatized Dwellings According to the Population Size of the Municipality

Population	0%	0.1–24%	25–49%	50–74%	75–90%
5,000–9,999	10.5	26.3	23.7	26.3	13.2
10,000–24,999	7.7	26.9	19.2	38.5	11.5
25,000–49,999	7.1	14.3	42.9	28.6	7.1
50,000–99,999	0.0	33.3	33.3	33.3	0.0
100,000+	0.0	25.0	50.0	25.0	0.0

SOURCE: LGHS.

2.3 Housing Construction and Renovation

2.3.1 New Housing Construction

Municipalities are involved in new housing construction through several types of activities. They build new municipal housing as well as support private housing construction. Municipal housing is usually constructed with the use of state subsidies, especially from the Program for Support of Rental Housing Construction and Technical Infrastructure Provision. Many municipalities see state support and the combination of local government and state finance as an efficient tool for the provision of new housing. Some of them think that the state contributions should be increased. Most municipalities, however, seek additional sources of finance from other than public (municipal and state) budgets. There are municipalities that have built new housing jointly with private partners. Local governments usually participate in housing construction through the provision

of land and insuring state subsidies. In return, they usually receive a corresponding share from the newly built flats. In many instances, municipalities use specific schemes that involve financial contributions from future tenants. The combination of various sources for new housing construction, including private finance, seems to be the most efficient way to produce new municipal housing. The private contribution is a useful additional source of funds in the case of large projects based on cost sharing between municipality and private partners. In many instances, private money is crucial as a part of local fund matching to obtain state financial contributions. This is the case with the financial participation of future users/tenants (Box 2.2), which many municipalities see as the most efficient and effective model of new housing construction.

Box 2.2

The Model of Rental Housing Construction with the Use of State Subsidies and Financial Contributions from Future Tenants

The municipality, together with the building contractor, establishes a non-profit housing association (it can take a legal form of a cooperative) in which each of them has a share. The town usually provides the land for the building and the building contractor ensures the project preparation. The actual housing construction is financed by the association, which applies for the mortgage credit from the bank and by the town, which applies for state subsidies for new housing units and infrastructure from the Program for Support of Rental Housing Construction and Technical Infrastructure Provision. The state subsidies and the land allocated by the municipality substantially decrease the price and subsequently increase the affordability of the newly constructed apartments. The apartments are allocated to tenants who buy a share in the association. The share corresponds to a portion of the apartment value covering initial costs. When construction is finished and apartments allocated, the private building contractor withdraws from the association, which then consists of the new tenants and the municipality. The town has the right of disposal on the flats for 20 years. During these 20 years, tenants pay rent covering the mortgage and fees for management and maintenance. After 20 years, the flats may be transferred to the possession of the users at no additional cost. This model is used to diminish housing shortages through the provision of affordable housing by utilizing municipal land, state subsidies, the financial assistance of future users (tenants and after 20 years owners) housing mortgages and the initial investment by private building contractors (paid back with profit at the end of the construction).

Besides the construction of new residential buildings, municipalities also produce new dwellings through top floor extensions, reconstruction of attics and developing non-residential spaces. The construction of new dwellings through top-floor extensions allows new dwellings to be created for lower costs in comparison with new construction and, at the same time, helps improve the quality of existing properties (new roof, repair of balconies, heat insulation, new mains, lifts, etc.). For many municipalities, this form of housing provision is, due to state subsidies for new housing units, a very cost-efficient

way to deal with two major municipal housing issues: the production of new dwellings and the reconstruction of existing dilapidated houses. Some municipalities build top-floor extensions with the aim of selling newly created flats for private ownership. In some instances, the construction work is organized by the city and financed by future apartment owners from the beginning. Even though the municipalities cannot use the state subsidy for newly created housing units in this case, they support the provision of new dwellings in their jurisdiction for more affordable prices (due to no expenditures on land purchase and infrastructure provision) and contribute to housing repair and reconstruction.

The use of attics for the creation of new dwellings is used in housing stock located in inner parts of larger cities, especially in Prague (Box 2.3) and Brno. The reconstruction is usually financed by future tenants and deducted from the future rent, while the municipality keeps the property in its ownership. Local governments prefer reconstruction that also involves common premises, such as the refurbishing of corridors and the staircase or building new elevator. The construction of new apartments in attic spaces can be partly financed from State subsidies.

Box 2.3

Allocation of Under-roof Spaces for Self-financed Construction of New Attic Apartments in Prague 1

Municipal buildings in Prague 1 (the central borough of the capital city) have unused under-roof spaces that offer great potential for new apartments. Up until 1994, the allocation was based on ad hoc decisions of the local government housing commission. A new system was developed and has been in operation since mid-1990s. First of all, the under-roof spaces (lofts) have been investigated and mapped. Then, plans of their conversion to attic apartments were prepared and shared with the Prague Institute for the Protection of Historical Heritage. In the final phase, the spaces are offered in tenders and individuals or households (limited to Czech citizens) can bid for these spaces. In each tender, about 15 spaces are offered for reconstruction and the subsequent lease. Each year about 30–40 spaces have been allocated. On average, there have been 3 parties interested in each offered space. The winner has to finance the reconstruction. The cost of reconstruction is lower than a new out-of-center apartment and only about one-third to one-quarter of the price for a refurbished apartment in the city center. The space remains in municipal ownership and the winner becomes a tenant in municipal property. The investor/tenant pays only a part of the actual rent, while the remaining share is covered by the initial investment to the reconstruction, an amount incrementally deducted from the rent (a form of advanced payment of future rent).

Municipalities also support private housing construction through the land assembly and the provision of technical infrastructure with the use of state subsidies. While, in many cases, municipalities aim at stimulating private housing construction, state subsidies are sometimes used in instances where housing would have been built even without

spending any public money. For instance, in 1999 and 2000, state subsidies were used for the construction of infrastructure for projects organized by major developers selling either apartments in condominiums or land for construction of family houses in Prague. The apartments and land would still have been sold on the market without the state financial support. Furthermore, despite the use of state subsidies, land and apartments were sold for full market price, a situation which implies that the funds from the State probably formed a creamy top on the project's profits or were used for creating a more favorable decision-making environment at the local government. Some municipalities also support private housing construction through the allocation of subsidies from municipal development funds.

Practically all local governments that build new housing, use state subsidies. Still, 22.5% of the local governments from 1996–2000 built some housing, even without receiving state support. There is no municipality that would build new housing using solely its own financial sources. A large share of local governments (28.1%) used co-financing with another partner.

Table 2.21

Forms of Financing Municipal Housing Construction in 1996–2000
(Types of Municipalities According to Their Use of Various Financing Forms and Combinations)

Forms of Financing Housing Construction	Share of Municipalities [%]
A) Local government (LG) investment without the use of state subsidies	0.0
B) Local government investment with the use of state subsidies only	50.6
C) Shared financing of municipality with an investor and the use of state subsidies	4.5
A+B) LG investment without subsidies as well as investment with the use of subsidies	15.7
A+C) LG investment without subsidies as well as shared financing with an investor and subsidies	1.1
B+C) LG investment with subsidies as well as shared financing with an investor and subsidies	15.7
A+B+C) The use of all three forms of financing new housing construction	5.6
Other	2.2
No answer	4.5
<i>Total</i>	<i>100.0</i>

SOURCE: LGHS.

The majority (88%) of newly built municipal housing is constructed with the use of state subsidies. 72% of new flats were financed by the municipality and the State and a further 16% used co-financing with an investor. Local governments financed solely from their own budgets only 17% of the dwellings newly built in 1996–2000. 70% of the municipalities in the LGHS built dwellings in new buildings and the same percentage of local governments continues to build new dwellings through roof-extensions and/or in the under-roof spaces of existing municipal properties. Of the local governments, 26% build exclusively new buildings, 26% exclusively use existing municipal properties and 44% use both types. From the total of all new construction, 71.6% of new dwellings were in new buildings and 28.4% in roof-extensions or built in under-roof spaces. The use of existing properties for more intensive use has been a very frequently-utilized strategy by municipalities for the supply of new housing.

2.3.2 Reconstruction and Modernization of Housing Stock

Municipalities attempt to improve the quality of their housing stock. Besides individual properties, local governments are involved in revitalization and humanization of large residential areas, namely housing estates. They utilize several programs of state housing policy. The most commonly used is the Program for Modernization of Housing Fund, from which municipalities obtain loans for modernization of municipal housing. The program has stimulated the establishment of various municipal funds (having names such as the Housing Development Fund, the Fund for Support of Housing Reconstruction, the Fund for City Revitalization, etc.) aimed at housing reconstruction, regeneration and modernization. These funds can also provide subsidies and loans for the reconstruction of cooperative, private rental or owner-occupied, multi-family as well as single-family dwellings. For the repairs of serious structural defects, local governments can use a special state housing policy program; for the reduction of heat and energy consumption subsidy granted by the Czech Energy Agency. Municipalities also use their own resources for housing reconstruction and upgrading (for instance, finance received from the privatization of municipal housing).

Almost all municipalities are involved in reconstruction and modernization of existing housing stock. Over one third of the local governments reconstruct municipal housing from their own finance, use state subsidies for modernization and at the same time support reconstruction of non-municipal housing. Over 60% of the municipalities financially support (usually from housing funds that use state subsidies) private and/or cooperative owners in their effort to upgrade their housing properties.

Box 2.4
Housing Development Fund of the City of Brno

Objectives:

- *Support new housing construction*
- *Provide financial means for repairs and modernization*

Revenues:

- *Revenue from privatization of municipal housing*
- *Interest-free loan from the Program of Modernization of Housing Fund (State housing policy) provided in annual installments*
- *Repayment of granted loans including the interest*
- *Financial contribution from municipal budget*
- *Interest on financial means deposited on the Fund's account*

Expenditures:

- *Expenditures of the city related to privatization of municipal housing stock*
- *Loans granted for reconstruction and modernization of rental housing owned by the city and other natural or legal persons*
- *Financing technical infrastructure for the construction of new housing*
- *Purchases of land for construction of municipal housing*
- *Maintenance and reconstruction of municipal housing*

Loans for repairs and modernization:

- *City boroughs are eligible (they are in charge of municipal housing management and maintenance) and private owners of residential houses*
- *Provided for 3 to 8 years*
- *3–7 interest rate*

Box 2.5
Housing Estate Regeneration in Prague-Řepy

Many local governments are still major owners of prefabricated housing. Even if privatization is applied, housing estates remain within their territory and they have to deal with their problems. Prague-Řepy is one of the local governments (Prague boroughs) actively pursuing regeneration of housing estates [Rietdorf et al. 2001]. 87% of 23,000 inhabitants live in prefabricated housing built in the 1980s. At present, about 44% of the dwellings in the housing estate belong to the local government, 40% are cooperative and 6% in owner-occupation. The plan of the local government is to reconstruct all 3,300 municipal flats in prefabricated buildings in 10 years at the total cost of about CZK one billion (USD 33 million). The complete reconstruction of the buildings also includes top-floor extensions through which the local government will obtain new dwellings. Privatization will be implemented after housing renovation and only in selected cases.

Table 2.22
Forms of Financing Municipal Housing Reconstruction and Modernization
in 1996–2000 (Types of Municipalities According to Their Use of Various
Financing Forms and Combinations)

Forms of Financing Housing Reconstruction and Modernization	Share of Municipalities [%]
A) Reconstruction and modernization from local government financial sources only	11.2
B) Reconstruction and modernization with the use of the State subsidies only	6.7
C) Support to reconstruction and modernization of cooperative and private housing only	3.4
A+B) Reconstruction and modernization from own financial sources as well as with subsidies	14.6
A+B+C) Reconstruction and modernization from own financial sources as well as with subsidies and support to other owners	38.2
A+C) Reconstruction and modernization from own financial sources and support to other owners	13.5
B+C) Reconstruction and modernization with the use of subsidies and support to other owners	5.6
No involvement in reconstruction and modernization of housing stock	5.6
No answer	1.1
<i>Total</i>	<i>100.0</i>

SOURCE: LGHS.

3. EVALUATION OF EFFICIENCY AND EFFECTIVENESS OF HOUSING POLICIES AND RECOMMENDATIONS

3.1 Perspectives of Evaluation: General Framework

The main aim of this final section is to evaluate the efficiency and effectiveness of the Czech local governments in the field of housing. The evaluation should identify shortcomings in the existing legal and institutional system and in the central and local government housing policies and practices. Based on the identified problems, proposals will be made for required actions to enhance the efficiency and effectiveness of the overall approach to housing at the local level as well as in the case of individual programs and practices.

The evaluation of efficiency and effectiveness of public policies toward housing on the level of municipalities should be based in a holistic perspective of the complex web of relationships in the national housing system, including both central government housing policies as well as local government housing policies and practices. Therefore, it should always take into account the efficiency and effectiveness of the whole housing policy system. The major questions should be: “What exists and what is missing?”, “What new is needed to increase efficiency and effectiveness?”, “What is efficient and effective from the existing policies and what is not?”, “What is redundant or counterproductive and needs to be abolished or modified?” To receive deeper analytical insight into the roles of the major public players, the evaluation shall concern two fields: The local government housing system and policies and the central government housing policies toward local government and local housing issues. The most detailed level of scrutiny concerns the efficiency and effectiveness of individual activities, programs and policies at the local government level.

The evaluation must recognize some basic characteristics of the contemporary situation. The housing system is still in a phase of adjustment to major structural changes in the Czech society, conditioned by the transition towards a democratic and market-oriented society. While most of the system transformations are finished and most of the parameters of the new market-based housing policy are established, there are still some factors, such as rent regulation or strong protection of tenants with unlimited lease contracts, which distort the market environment and make any evaluation difficult. The transformation policies themselves cannot be evaluated from the point of view of efficiency, as if they were empowered to change the basic parameters of the system. However, it can be stated that some uncompleted transformations can hamper the possibilities for more effective and efficient local housing policies.

The evaluation may concern new practices, programs and policies assessed in the background of a new market-oriented housing system. The new system has only been operating for a short time with very little monitoring of results, in particular on the local level, and therefore, the evaluation can not be prepared from the ex-post perspective. Last, but not least, any evaluation of efficiency and effectiveness can be completed objectively only if objectives were clearly defined including the measures of objective achievement. However, this was often not the case. Any other evaluation is not value free and can therefore be biased.

The evaluation can be made from various perspectives with different results. There can be central government policies which, when utilized by the municipalities, seem very efficient and effective from the point of view of the local government. However, they can be seen as less efficient and effective from the perspective of the central government. For instance, the central government Program for Support of Municipal Rental Housing Construction and Technical Infrastructure Provision does not achieve some of the goals desired by the central government, as the financial support is often spent on

groups other than the population for which it was intended (middle-income instead of low-income households). Therefore, from the perspective of the central government, it is less effective than intended and hoped for. However, recipients of this subsidy, i.e. municipalities, see the use of the financial support from this program as a crucial means and an efficient and effective way to achieve some objectives of their municipal housing policies, namely in the field of new housing supply. At the same time, municipalities can see the institutional and financial organization of this program by the central government as inefficient and ineffective, because long waiting times and lower financial subsidies than requested present municipalities with uncertainty and difficulties in investment planning.

3.2 Division of Competencies between Central State and Municipalities and Its Impact on the Efficiency and Effectiveness of Public Housing Policies

This evaluation first focuses on the institutional framework in which local governments have to operate, namely the division of responsibilities and competencies between central and local governments. The intervention of a public sector to the housing sphere has been quite centralized in the Czech Republic. Nevertheless, municipalities have gained important powers and autonomy in some areas, such as property management (including large public housing stock) and physical planning. At present, the local and regional government system is undergoing a basic system transformation, including the distribution of competencies between various levels, and the roles of local and regional governments in the field of housing are not clearly specified. The local government structure is very fragmented with many extremely small municipalities. This hampers the possibilities for efficient and effective local housing policy in small settlements, as local governments there do not have sufficient financial means nor personal capacities. Therefore, the central government keeps many responsibilities, especially in the field of housing finance, under its control.

The central government prepares the Housing Policy Strategy and creates the legislative framework for housing. The Strategy has been approved only recently (in 1999) and the legislative framework has not yet been fully adjusted to a market-based housing system. The central government also develops housing policy programs and tools with an aim to support housing availability and affordability as well as the care of housing stock. Most of these programs are managed and financed at the central level. An exception is the Program for the Housing Stock Modernization from which loans are provided to municipal housing funds so its final allocation is at the discretion of the municipality. Municipalities also play a crucial role as a partner to the private sector in the application for subsidies on technical infrastructure and rental housing construction

from the Program for Support of Municipal Rental Housing Construction and Technical Infrastructure Provision.

The current housing policies usually do not take into account regional and local differences. The exception is the Program for Repairs of Prefabricated Housing (modernization and reconstruction) where the level of interest subsidy is regionally differentiated, with higher support in economically depressed areas. Not all housing policies require regional dimensions. However, there are instruments, such as housing allowances, which should incorporate sensitivity to territorial differences. With the increasing territorial differentiation of housing costs, the current system of housing allowances with flat rates across the country territory is losing its effectiveness and there are also reservations concerning its efficiency.

The main roles of municipalities in housing are based in their ownership of housing stock and its management. Municipalities are the key landlords of a large share of the country's housing. They freely decide which role they will play. Whether they will build new housing, sell all housing, keep some as social housing stock or will retain most dwellings, and so on, strongly influences local social and economic development. It is at their discretion whether they will act as an "entrepreneur" in housing, help people in difficult housing conditions through strong social housing policies or practice both approaches. Unfortunately, no guidelines or recommendations have been formulated at the central government level. Especially lacking is a national concept of social housing. Consequently, in this conceptual vacuum, local governments may use less efficient and less effective approaches and tools.

Municipalities are the key agents of privatization of municipal housing. This sphere has not been regulated or even guided from the central government. It has been solely at the discretion of local governments what, how much, and in what way, they will privatize. The privatization has often been perceived as a product rather than a tool to achieve certain objectives. The decentralization of responsibilities for privatization to local level, where there is the best knowledge of the needs of the local housing markets, can be seen as a rational decision leading to more efficient and effective approaches and policies towards housing. However, this has not been accompanied by central government guidelines for privatization that would have recommended general margins and at the same time reflected different local housing conditions and various possibilities of furthering the political objectives of the local government. Privatization has often been based on intuition and ideological arguments and not on an in-depth analysis of the local housing markets and therefore could be less efficient and effective.

Provided that municipalities keep a substantial share of the local dwelling stock, they can importantly influence local housing markets through the allocation of dwellings. The ways of allocation are at their discretion. However, they have to respect the framework given by the national legislation that has limited local governments, especially in the field of existing unlimited leases that pertain from the Communist era. The strong protection

of tenants is seen as problematic as it strongly limits local government property rights and thusly prevents a more effective as well as efficient use of their housing stock (see the more detailed discussion of black markets and rent arrears). Consequently, many municipalities prefer extensive housing privatization, which may not always be the most rational long-term strategy.

Local governments decide on rent setting in their own housing. Again, they have to respect national regulations such as maximum basic rent and adjusted regulated rent. The rent regulation severely restricts the possibilities for local governments to increase economic efficiency in management and indirectly also limit their effectiveness in the allocation of municipal housing stock. The efficiency concerns more than increased revenues from higher deregulated rents. If the rent is increased, some tenants may leave municipal housing as they have the means to afford better housing (in the meantime they are utilizing low housing costs to benefit on savings from housing expenditure). Vacant dwellings can then be used more effectively, for instance allocated to households in need, as well as efficiently, i.e. leased for market rent to generate revenues.

There are a few limited opportunities for local governments to influence non-municipal housing. Local governments have at their disposal a very important tool that influences the development of new housing and its character: physical planning. Furthermore, some of them practice land policy to stimulate and influence new housing construction with an aim to help both social rented housing for the low-income population, lower-cost apartment housing for middle-income households as well as owner-occupied housing for the well-off. However, a regional co-ordination of physical planning and municipal policies is lacking. Consequently, rational behavior of some municipalities can be perceived as less rational from the regional and national point of view. For instance, the competition of suburban municipalities for new investments through offering extensive opportunities for family housing construction can have negative impacts on inner-city housing and its deterioration. The State does not coordinate territorial planning on a regional level and it will take a long time for the newly established regional governments to formulate their priorities. In the meantime, the settlement structure in metropolitan areas develops in a way that can strongly impact the efficiency and effectiveness of future public housing policies. More complex tools, such as area targeting, have not yet been developed in the Czech Republic.

Municipalities are the final users of many support programs of the state housing policy that are aimed at new housing provision as well as housing stock repair and modernization (Table 2.23). While most of these programs seek to improve municipal housing stock, some funds may be channeled to non-municipal end-users. Therefore, local governments have a limited role in the distribution of financial support, namely from municipal housing development funds that are financially supported from the central government and also through the co-application with private investors for support for infrastructure on land for housing construction. Municipalities can, of course,

also develop their own tools and financial support programs. They are, however, limited by their financial capabilities. Besides municipal housing development funds, and some rare cases of subsidized land preparation for housing construction, there are no other examples of local government housing finance tools.

Table 2.23

The Use of the State Housing Policy Programs by Local Governments

State Housing Policy Program	Share of Towns [%]
Program for Support of Municipal Rental Housing Construction and Technical Infrastructure Provision	95.5
Program for the Housing Stock Modernization (loans to municipal housing funds)	77.5
Program for Repairs of Housing Stock (prefabricated housing defects)	28.1
Program for Repairs of Prefabricated Housing (modernization and reconstruction)	38.2
Program for Regeneration of Housing Estates	36.0
Program for the Support of Construction of Housing with Social Care Support	73.0
Interest subsidies on mortgages used by municipalities for new housing construction	28.1

SOURCE: LGHS.

Many municipalities complain the low level of state housing financial support does not enable them to cover their local housing needs. The public housing provided by municipalities is (in the market-based housing system that is now used in the Czech Republic) seen as complimentary to other ways of housing provision. The question therefore is, whether the central government has sufficiently supported the development of other housing sectors. There has been an advance in the development of mechanisms that allow and support the progression of housing to owner-occupation, namely through the establishment and support given to mortgages and housing savings. This system, however, due to high disparities between housing construction costs and household net incomes, supports only a small segment of the population. Municipalities attempt to increase the affordability of owner-occupied housing through their land policies and the help of the financial assistance from the State concerning technical infrastructure provision. The only other way that makes new housing available and affordable is new municipal housing construction. In this area, a high need is faced with the limited financial resources of the municipalities. Municipalities attempt to provide as many

dwellings as possible for available finance. They utilize the state support and combine it with the private sources of future tenants and help with the provision of housing for the middle-class. They hope that this will diminish the pressure on the utilization of existing municipal housing. Some will become vacant and can then be allocated to households in difficult housing situation and without financial means. In this way municipalities actually support a housing filtration process.

The central government could ease the pressure on local governments through the support given to the development of a non-profit housing sector to cover the existing gap between the market and municipal housing provision. This has not yet happened. In the meantime, municipalities use the state financial support in manners different than originally intended, i.e. in a less effective way, as the funds are not used for direct support to provide social rented housing to people in the most difficult housing situations. However, from their own perspective, they use the funds very efficiently as they provide as many new housing units as possible to their constituents.

3.3 Efficiency and Effectiveness of Public Policies toward Housing on the Local Level

It is not possible to generalize the role of municipalities in housing. Very different roles are played depending on the size of the municipality, local socio-economic conditions, the volume of municipal housing stock, local political preferences, etc. Most municipalities take housing as a crucial part of local development. However, their approaches to housing differ substantially. Some municipalities perceive housing as a field that must be controlled and influenced by the local government. Other towns leave it to the market. Local governments that want to impact housing can do so through the strong municipal ownership of housing, while others may prefer indirect intervention in the form of enabling local markets to work on their own. Therefore, the use, form and content of local housing policies are highly differentiated. This also means that any precise evaluation of the efficiency and effectiveness of a local government approach to housing must be based on in-depth knowledge and understanding of the local situation.

The following evaluation of efficiency and effectiveness of public policies toward housing on the level of municipalities is based on limited knowledge and information. It aims to identify general problems common to many municipalities. The actual situation in an actual municipality may substantially differ from these general observations. The evaluation is centered on the local government housing practices. Because many local government policies and practices are regulated and influenced by the central government policies, the evaluation will take into account the national context. The evaluation is divided into several fields that correspond with the main areas of local government involvement in housing:

- Municipal housing policies
- Municipal housing property management
- Dwelling allocation and rent setting
- Privatization
- New housing construction
- Housing modernization

3.3.1 Municipal Housing Policies

Municipal housing policy conceptions are the basic documents upon which the efficiency and effectiveness can be assessed, provided their goal is to increase efficiency and effectiveness. Only one third of the municipalities with 5,000 or more inhabitants have an approved housing policy strategy. It can be expected then, that the actions of the remaining two thirds of the local governments will probably be less efficient, concerning their housing strategies, in comparison with what the situation could be if they had a strategic document to guide their way. Even if a housing policy strategy was approved or if the local government used a certain set of objectives that has not been explicitly approved as housing policy, it still might not lead to higher efficiency and better effectiveness. Housing policy strategies do not have to be based on these concepts. A close look at the national housing policy shows that, while it argues generally about efficiency and effectiveness, no indicators and mechanisms are provided as to how to measure and monitor this. Furthermore, the strategy itself can have features that will not lead to increasing efficiency. There is often confusion between objectives and tools in municipal housing policies and practices. For instance, privatization is seen as the end product rather than a tool used to restructure local government housing. The housing policy strategy leading to increasing efficiency and better effectiveness should be based on a good analysis of existing local housing systems and clearly defined political priorities, declared social, economic and other objectives and determined tools that will be used to achieve their objectives.

3.3.2 Municipal Housing Property Management

One of the key fields in which efficiency and effectiveness are crucial concepts is municipal housing property management. Few local governments think of their housing as a portfolio of real estate with a product that can be modified to better serve the desired purposes and, at the same time, to increase efficiency and effectiveness. Most local governments look at the technical conditions of housing stock but they do not use economic analysis of their current and future performance. This is heavily influenced

by the practices inherited from the central planning system. In the Czech Republic, municipal asset management is non-existent or in an embryonic stage. Decisions are made in a non-strategic and ad-hoc manner. Municipalities should learn, develop and apply the practices of municipal housing portfolio management.

Municipalities should learn techniques and practices of how to regularly review the current use of individual properties from the perspective of opportunity cost, a mode of management and finance to match the long term municipal strategy in housing use and investment [Kaganova and Nayyar-Stone, 2000]. There are strong reasons to develop and use strategic approaches to municipal real estate management. Firstly, municipalities are usually large property owners. Provided they will likely become holders of a larger amount of property, they should use asset management practices. Secondly, due to changing political priorities, some of their real estate (sometimes a large amount of residential properties) is seen as a surplus property that is not needed for functions performed by the local government.

The asset management can be used for the identification of properties which, when sold, will not only bring immediate revenues but also contribute to the better performance of the whole property portfolio. For instance, while the sale of good quality housing will generate higher immediate revenue, the sale of the worse-quality housing could be a better decision from a long-term perspective. It will bring some immediate revenues and, at the same time, properties with high management and maintenance costs will leave the municipal portfolio, thus decreasing annual expenditures and making the economic performance of the whole portfolio more efficient.

Thirdly, many local governments are in financial stress and need to increase the revenues to their budgets. Again, the sale of housing can generate immediate revenues, but a good strategy for real estate management can diminish annual expenditures or even bring increasing annual revenues from municipal real estate. The surplus property (for instance, housing that is not necessary for keeping the social targets of local government as social housing) can be privatized to generate one-time revenue and later property tax revenues, or leased for market rent to generate annual stable or even increasing revenues. The asset management tools can help to answer which strategy is more efficient and effective. Fourthly, many municipal residential properties are usually intended to satisfy the social housing objectives of the local government. They are not utilized for its “highest and best use”. However, it does not mean that their economic performance should not be considered. The interest of the local government should be to achieve its social targets and at the same time to minimize the subsidy and, thus, increase efficiency. Real estate management can help to measure subsidies (for instance, in the case of municipal housing, the difference between the market rent and the actual rent can be seen as the subsidy) and to help to identify ways of their reduction while providing service to a population in need of social housing.

Box 2.6 Municipal Housing Portfolio Management

Real estate asset management involves several steps. The fundamental one is property inventory. There should be established records for all individual properties. The records should include information about their physical condition, legal aspects, tenants, occupancy, revenues, expenses, value, depreciation, debt obligations, etc. The inventory must be regularly (annually) updated. The second step is property evaluation and accounting. The (computerized) records should help with tracking revenues and expenses and to evaluate the economic performance of local housing property on the background of the functions the properties serve. The third step is the evaluation of each property as a basis for property management. Properties should be classified into groups based on political goals and financial performance, with different roles in the overall strategy of municipal property management. Group-specific performance standards and financial tools should be developed. The municipal asset management, i.e. the strategy concerning property holdings, should evaluate each property and every property group in the context of the whole portfolio considering the political priorities of the local government. There should be a clearly formulated role of real estate in attaining local government objectives. Municipal property management should then provide a rationale for decisions concerning rules that govern acquisition, holding or disposition of municipal properties.

3.3.3 Dwelling Allocation and Rent Collection

Another field for the evaluation of efficiency and effectiveness is dwelling allocation and rent collection. The existence of the black market and rent arrears signals problems in current practices. Black markets limit the rights of the municipality to allocate municipal dwellings to people on waiting lists or other people to whom the local government would allocate empty flats, if there were any available. Therefore, it limits possible effectiveness of municipal housing allocation policy. Furthermore, provided that instead of black marketing the dwelling is returned to the municipality, a new contract could be signed on an unlimited lease. Therefore, the municipality suffers financial losses through allowing illegal subleases. This is causing great inefficiencies. Many municipalities complain about their tenants subletting municipal apartments for market rent to a third party. However, they have not actively and promptly exercised their property rights to limit the development of the black market. Municipalities have been passively waiting for rent deregulation, which should solve this problem, instead of actively seeking out cases of illegal subletting on their own. It is true that it is difficult to prove that there is an illegal sublease. However, this work cannot be done from the office but only by constant vigilance concerning daily management of its own property rights. Tenants should be listed in municipal property records and there should be regular monitoring of the correspondence between records and the actual users of the municipal dwellings.

Proper municipal housing portfolio management could help with the identification of black market cases and help to increase the efficiency and effectiveness in the use of municipal housing.

From the point of view of municipal practices, a very similar issue is the rent collection and high incidence of rent arrears that indicate inefficiencies. Many local administrations have been waiting for quite a long time to solve difficulties with tenants that do not pay rent. Municipalities have only recently started to fight more strongly against rent arrears. However, some individual debts are so high that they can hardly be paid back. There should be regular monthly reviews of collected rents based on individual dwelling/tenant basis and explicitly given levels of debts that require certain action from the municipality all the way up to seeking court resolution. The central government has to help municipalities to diminish the existing strong protection of tenants through the adjustment of the civic code. However, the basic responsibility is at the level of the municipal administration and the local housing management companies.

Municipalities complain that revenues from housing do not cover expenditures or that they are insufficient to allow for needed reconstruction of municipal housing. They often see the major cause in the central government rent regulation that does not allow many of them to increase revenues. The central government can help through the establishment of cost-related reasonable-profit rent regulation. However, there is also the question as to whether municipalities are efficient in collecting revenues and whether expenditures could be diminished, even under contemporary regulations. It must be recognized that many local governments have quite substantial losses of revenues due to the black market and rent arrears. At the same time, they do not explore other options on both expenditures and their revenues, through the utilization of better property management techniques. Furthermore, municipal accounting systems often do not separate municipal housing revenues and expenditures from general municipal budgets and, thus, do not allow for proper assessment. In many municipalities, funds gained from housing, for instance from privatization sales, are often not fully returned back to this sector. Therefore, there are high internal barriers in the way of increasing efficiency and making the local housing actions more effective.

3.3.4 Privatization

Privatization of municipal housing has been an important activity of the local governments. Despite the fact that sometimes privatization was perceived as an end product, it often had some background rationale. It was supposed to stimulate the development of local housing markets and, thus, increase the efficiency and effectiveness of housing provision. It was also expected that new owners would take better care of the property than the anonymous public landlord.

There are municipalities for whom privatization was an important strategy used to restructure the portfolio of municipal housing with an aim to reduce costs and increase revenues. Privatization can help to get rid of buildings that create net financial loss. This concerns more than just sales of properties with high maintenance costs and in need of repair. Sales also diminish the number of municipal tenants with unlimited lease contracts, i.e. those that pay regulated rent. Beside privatization, a local government can build new dwellings with low maintenance costs and where it can select tenants and conclude lease contracts and rents according to its own preference. Therefore, privatization, used as one of the tools leading to the restructuring of a municipal housing property portfolio, can bring an increase in efficiency as well as improved effectiveness to local housing policies.

Using property sales, municipalities have shifted the responsibility for maintenance and reconstruction to new owners. However, many privatized properties were in bad condition and in need of repair and reconstruction. Many local governments explicitly prefer the sales of buildings in bad conditions. The transfer of such dilapidated properties can be seen as a rational step from the point of view of local government and efficiency of local housing finance. It diminishes current expenditures, however, it can bring about urban decline in the long run. Not every new private owner has enough financial means to cover the needed repair and reconstruction caused by the lack of proper housing maintenance during Communist times. New owners have to pay basic maintenance and management costs and often also have to repay the loan taken for the purchase of the housing, having then very limited funds left for substantial repair or reconstruction. Privatization has temporarily shifted the problem of repair and reconstruction from public institutions to private individuals and postponed its resolution. It can be anticipated that some of the privatized housing that is owned and occupied by households in the lower income brackets is likely to deteriorate, creating serious future problems in urban housing. Some municipal representatives say that they have no other options but sales, as the central government brought them to a difficult situation with the transfer of public housing to their hands without supporting them financially. It is very difficult to evaluate this, however, it can be expected that privatization efforts deemed efficient from a short-term perspective can generate future problems that will require high financial support from the public sector in a long-term.

Privatization was also used as a source of quick revenues to local budgets, funds that have not always been used for upgrading existing housing or new housing construction. There are many instances where privatization of municipal housing was not used as a housing strategy to help restructure the local housing provision, but rather as a tool for income generation and to get rid of what was believed should be the responsibility of the individual or household, and not the government.

3.3.5 New Housing Construction

Municipalities are involved in new housing construction in a number of ways. They build new municipal housing in new buildings and with extensions of existing ones as well as by supporting private housing construction. The assessment of efficiency and effectiveness of local government involvement in housing construction can only be done on the level of the individual municipalities, as the socio-economic conditions differ substantially. While some suburban municipalities in the metropolitan areas of Prague and Brno can largely rely on private financing of family housing construction by individuals or developers, many other municipalities have to assist private investors through land supply or by providing housing heavily supported from public finance. Therefore, each local housing policy in the field of new housing construction is specific, conditioned by the existing housing stock and local socio-economic conditions.

There are several modes of new municipal dwelling construction:

- Fully financed from public sources and moved to municipal ownership;
- Partially financed by future tenants and moved to co-ownership of the municipality and a cooperative of tenants (with the transfer of ownership from the municipality to tenants after 20 years);
- Fully financed from public sources and put up for sale.

New housing for sale was built, for instance, by the City of Prague and by borough Prague 1. The main goal was to generate revenues for further housing construction of small social flats. However, it is questionable whether such an entrepreneurial approach without clearly defined public targets can be justified. These were attempts in the mid-1990s that finished up a blind alley and are not likely to be repeated.

Most of the dwellings built by municipalities are fully financed from public sources, usually by a combination of municipal and state funds. The state housing policy financial support is not always available to finance all dwellings constructed by municipalities. Our research indicated that there are no municipalities that would build new dwellings only from their own sources and that only 10.6% of the new dwellings erected in 1996–2000 were built without state subsidies. Municipalities perceive the use of the state support as the most efficient and effective way to provide new housing for people in need of housing. A large percentage of these dwellings are in top-roof extensions, where the construction costs are lower and the municipality can utilize the maximum 50% share of state funds towards the total costs. The state subsidies are also crucial for the provision of new dwellings in homes for the elderly.

Many new dwellings are constructed using associations with private investors, usually future tenants. This method includes the state and private financing with marginal financial contributions from the municipalities. Local governments usually help to collect the State support and assure the project organization. This arrangement is seen

as the most efficient and effective provision of new housing to people with financial resources that are not sufficient to acquire private housing on their own. The provision of state support does not help those people who are in the worse housing situation and, therefore, this model cannot be seen as an effective and efficient spending of public finance. The Program for Support of Rental Housing Construction and Technical Infrastructure Provision does not explicitly define any income limits for future tenants and municipalities usually do not apply them either. However, municipalities usually require the return of old municipal dwellings from municipal tenants that participate in this form of new housing construction.

There are two major tools through which local governments influence private housing construction: Physical planning and land policy. Physical planning is a necessary precondition for new development and virtually all municipalities have physical plans in which they usually zone a much larger amount of land for new housing than can be utilized in future decades. Most municipalities do not practice land policy. Some local governments use ad hoc involvement in the land supply for new private housing. However, land banking strategies do not exist, not referring to the coordination of land policy with physical planning. The State should support municipalities in the development and practice of local land policies through methodical as well as financial support, because land policy is not only one of the basic but also one of the most efficient and effective tools in market-based local housing policies.

Box 2.7

Municipal Land Policy

Public sector is moving from the role of provider to the role of enabler of housing development. This often requires an active land policy. Land policy, i.e. acquisition, holding and allocation of public land in the form of sale or lease for housing development, is a very important tool that can serve the local governments in stimulation of new housing provision as well as managing the forms and timing of housing development. Besides the housing in local government ownership, municipalities can strongly influence local housing development using land policies. Furthermore, municipalities often participate in public-private land development or redevelopment used for regeneration and revitalization of specific parts of cities through the provision of municipal land. The basic part of land policy is a well-functioning land banking system that serves for acquisition, holding and disposition of public land. The reality is that many municipalities do not even have a good knowledge of current land holdings. Kaganova and Nayyar-Stone (2000) states that "while it is often possible to learn which shares of a city area are used for various functions (housing, industries, agriculture, etc), data on the amount of public land rarely exist". The first step is, therefore, to track existing land in municipal ownership and make a comprehensive inventory. The land bank should keep records on a site-by-site basis and classify municipal land into categories based on current use and desired future development. Particular attention should be given to properties that could be used for municipal land policy, i.e. as a tool for local housing development. Property management practices should be used similarly as with municipal

housing portfolio management to assure that the acquisition, holding and disposition of land will, besides fulfilling political targets, be financially rational and sensitive to local market conditions. The asset management strategies can improve the efficiency and effectiveness of municipal land policies.

There are municipalities that use land policy measures to influence private housing development. This involves land assembly and provision of technical infrastructure, usually with the use of state subsidies. However, the state funds have also been used for construction of infrastructure for projects organized by major developers selling either apartments in condominiums or land for further construction of family houses, i.e. in cases, where housing would have been built even without spending public money. Such use is not limited by the housing policy Program for Support of Rental Housing Construction and Technical Infrastructure Provision. Nevertheless, the public subsidy should be used in a more efficient and effective way and the rules of the program should be adjusted.

3.3.6 Housing Modernization

Municipalities are involved in the issue of modernization of their own housing stock as well as in creating conditions and helping with the modernization of housing in non-municipal ownership. The modernization does not only involve the repair of individual buildings, but also the revitalization of entire residential areas that can be composed of various ownership and tenure forms of housing. A large share of Czech housing stock is in poor condition caused by a lack of maintenance and negligible investment to its reconstruction during Communism. With the transfer of housing from the state to municipal ownership in 1991, local governments become responsible for large areas of dilapidated housing. Some of these properties were returned to former owners through restitution. However, many remained in municipal ownership. The rent regulation throughout the 1990s did not cover management and maintenance costs, not referring to the funds needed for reconstruction and modernization.

One of the key decisions that could “solve“ the problems with repair, reconstruction and modernization of these buildings, was to privatize. Many local governments transferred the responsibility of investment to reconstruct old properties to new owners. There are very few exceptional local governments, such as borough Prague-Řepy (Box 2.5), which prefer the so-called Berlin model, with rehabilitation preceding privatization. The possibilities for repair and reconstruction of municipal housing have been strongly limited by financial considerations. The regulated rent did not allow accumulate financial resources for modernization. The adjusted rents in the case of modernization

(may be twice the level of basic regulated rent) were not high enough to cover the loans taken for the investment to renovate. It is questionable whether tenants should pay for the lack of maintenance difficulties caused by the former Communist State. To help municipalities and other owners with the repair and reconstruction, the central government has introduced some new programs in recent years. However, they offer rather small financial contributions as a solution to the whole problem.

One of the major municipal tools used for housing modernization are municipal housing funds, which were established with the help of state housing policy financial resources. These funds usually integrate local housing funds in fields such as privatization, modernization and new housing construction. They generally can be seen as an efficient and effective tool. However, their accurate assessment must be based on a deep understanding of a number of individual cases.

3.4 Recommendations

Despite occasional achievements, namely the accomplishment of transformations and the establishment of a market-based housing system and housing policy or, more specifically, the introduction of new housing policy support programs, there are still shortcomings that diminish the overall efficiency and effectiveness of the Czech housing system. This final section focuses on the existing shortcomings in housing policy on the local level and provides a set of general recommendations for both central and local government housing strategy.

3.4.1 State Housing Policy and Local Government Housing

- The existing strong protection of tenants limits local government property rights and diminishes their effectiveness in dwelling allocation and especially in their fight against the black market and rent arrears. The landlord/tenant relations specified in the Civil Code should be adjusted.
- Local government housing finance efficiency is restricted by rent regulation. A new form of cost-related reasonable profit rent regulation should be introduced. This, however, also needs new forms of rent policies and practices from the local governments, such as social and spatial rent differentiation and the introduction of housing allowances by the central government.
- The State can ease the pressure on housing provision by municipalities through the approval of legislation for non-profit housing associations. Housing associations would supply housing for lower-middle and middle-income households. The local government could then operate in the segment of social housing for

low-income people as well as provide dwellings for people with locally needed professions. This would increase the efficiency and effectiveness of public funds provided through the local government, as they will be more likely channeled to people in the most acute housing need.

- The State can also help through an increase in state housing subsidies to municipal governments. Provided that the State does not take action in previously mentioned fields, there is a need for stronger support of municipalities in housing provision. Especially the support for the provision of land with technical infrastructure should be strengthened. As a part of local government land and housing policy, it would stimulate investment to housing from various (especially private) sources.
- There is a need to clearly formulate the objectives of state housing policy programs. Housing policy programs towards municipalities, currently, have very general objectives. Consequently, public funds are sometimes spent to support housing for people that are not in the most difficult situations, such as is the case of the Program for Support of Rental Housing Construction and Technical Infrastructure Provision. The State should first clarify the objectives and target groups (introduce income limits) for whom the new housing, built with state support, is allocated. In the case of support for infrastructure provision for private housing construction, municipalities should provide an approved municipal land policy concept and justify why this financial support is used for the support of housing that could be developed without public help. Furthermore, ex-post control and evaluation of subsidy spending should be introduced. For instance, it should be proven that the state subsidy for infrastructure costs for private housing construction diminished the price for final users and, thus, increased housing affordability.
- Land policy is one of the very important tools that help local governments in the stimulation of new housing provision as well as managing forms and timing of housing development. The State should support municipalities in this development and practice of local land policies through methodical as well as financial support. The support given to technical infrastructure in land development for housing could be separated from the existing Program for Support of Rental Housing Construction and Technical Infrastructure Provision and the ratio between the support provided to the infrastructure and municipal rental housing construction could change in favor of the former. However, this requires an elaborate set of conditions and requirements for the support allocation.
- Increasing regional differences in general social and economic development have a growing influence on housing. The quality of housing stock, housing need, access to housing, etc. are regionally and locally differentiated. Therefore, there is a need for regionally varied application of some housing policy programs. The

existing general countrywide programs of housing policy should be adjusted to take into account specific local conditions. Some programs could incorporate separate levels of subsidies to mirror the local and regional situation. At present, such a measure is used only in the Program for Repairs of Prefabricated Housing (modernization and reconstruction) with three levels of interest subsidies. New programs aimed at location-specific housing problems should be developed, such as housing regeneration in declining urban areas, which would provide support only in selected settlements and their zones (area targeting).

- Coordination of housing and other policies should be developed in the field of area targeting, aimed at complex development. There are residential areas in depression, both socially and physically declining, that present a potential threat to the socially, economically and ecologically sustainable development on the municipal level. To help such problem areas requires an application of complex programs of area targeting focused, for instance, on inner city housing rehabilitation and at the same time economic revitalization. The central government recently started a program intended to support the regeneration of housing estates. However, it must be said that programs aimed at complex area improvement can not be isolated as housing initiatives, but coordinated and possibly integrated with efforts in other fields such as physical planning, regional policy, environmental policy and transport policy.

3.4.2 Local Government Housing Approaches, Policies, Programs and Practices

- The basic starting point for increasing the efficiency and effectiveness of municipal housing policies and practices is a well-established and functioning local housing framework. The framework should be based on a clearly formulated local government housing policy strategy. A majority of municipalities still do not have such a strategy. It is recommended to elaborate and approve it unless the municipal political representation does not want to be involved in housing at all and most of the former municipal housing stock has already been privatized. Existing housing practices and policies often do not clearly specify housing, social, economic and other objectives, and the tools needed to achieve them. Sometimes the development of tools or requesting state subsidies is an objective in itself. The local housing policy strategy should start with the hierarchy of objectives from the most important to the least important, from the most acute to the least pressing, starting with general issues and elaborating to more specific areas. The hierarchy of objectives shall then be accompanied with the implementation strategy including the specification of tools, financial arrangements, timing and institutional and personal responsibilities.

The strategy should also incorporate a system for monitoring and evaluation.

- There are large barriers to the more efficient and effective management of municipal housing stock, concerning both property and tenants. Municipalities should learn, develop and apply new tools and practices in real estate management, especially municipal housing portfolio management. The portfolio management can become the basis for privatization and housing modernization.
- Municipalities should also more actively defend their property rights against tenants that abuse their right municipal housing, namely with black market deals and rent arrears. The portfolio management techniques can help in the overview of tenants and their obligations concerning rent. However, the abuse in the form of the black market can be minimized only through regular field controls of municipal housing.
- With increasing ceilings for maximum regulated rent and with the expected full rent deregulation, opportunities as well as the need for new modes of rent setting are increasing. For instance, most municipalities do not use the possibility to differentiate rent according to the location, construction type or age of housing, so rents mirror the overall housing quality and desirability. The municipal housing stock can be divided into groups in which rents as well as allocation procedures may differ.
- The participation of tenants in municipal housing management virtually does not exist in the Czech Republic. It is usually understood as economic participation, i.e. financial involvement in housing construction and repair and not as participation on the management and decision-making level concerning housing stock. The existing, usually technically oriented local housing approaches, should incorporate more social management work.
- The local housing finance should be separated from the general municipal budget. This would help to designate what are the own housing circuits and what are financial inputs and outputs. The housing development funds, whose establishment was stimulated by state housing policy, can be used as such a tool for independent local housing finance. It is recommended that money generated within municipal housing should also be spent in the field of municipal housing. Therefore, for instance, incomes from privatization should stay in the municipal housing development fund and be allocated for housing modernization, new housing construction or as a low-interest loan to private homeowners.
- In the field of new housing construction promotion, municipalities should develop and practice land policies, which can become the major tool for the stimulation of new housing construction.

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How to Meet the Market Rules
and Social Goals for Housing?

Local Government and Housing in Poland

Ryszard Uchman

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INTRODUCTION

Poland started its transformation process towards a market economy in 1990. This process was initiated during deep crises which were affecting the Polish economy. In 1990, the GDP decreased by 11.6% compared to that of 1989, investment outlays dropped by 10.1%, real wages fell by 20%, and the average annual rate of inflation reached almost 560%. Economic revival and reversal of downturns finally began in 1992 and considerable economic growth was reported inbetween the years 1995–97 (Table 3.1).

Table 3.1
Basic Macroeconomic Indicators

Indicator	1995	1996	1997	1998	1999	2000
Population [millions]	38.6	38.6	38.7	38.7	38.7	38.6
GDP [USD billions]	126.6	142.8	143.1	157.5	154.1	158.8
GDP growth [%]	6.9	5.9	6.8	4.8	4.1	4.0
GDP per capita [USD]	3,281	3,698	3,702	4,073	3,986	4,108
Consumer price index (1990 = 100)	556.7	667.5	767.0	857.5	920.1	1,013.0
Unemployment rate [%]	14.9	13.2	10.3	10.4	13.1	15.1
Investment outlays index (the previous year = 100):	117.1	119.2	122.2	115.3	107.0	103.1
• in total						
• capital investments for housing construction	92.7	96.8	117.7	113.3	116.4	—

SOURCE: Polish Agency for Foreign Investment.

In 1990, the population in Poland amounted to 38.2 million people and the existing housing stock was about 11,022,100 dwellings. For every 1,000 residents in 1990, there were 288.7 flats and average usable area per person was 17.5 m². The deficit of houses was estimated at 1.4 million dwellings. However, in the first phase of transformation (between 1990–1995) the level of GDP growth, growth in real wages, and the level of inflation, badly affected the housing construction dynamics. In 1995, the number of dwellings completed (67,100) was equal to half the completed housing construction in 1991. The number of completed dwellings for a population of 1,000 dropped, from 3.6 in 1990, to 1.7 in 1995.

Taking into consideration the results of housing construction during that period, one may come to the conclusion that housing construction has not had an adequate share in the growth of the Polish economy. In 2000, the population was 38.6 million and the housing stock increased up to 11.8 million dwellings. There were 306.5 housing units (333.1 in urban areas) per 1,000 inhabitants; improvement in housing situation was very minimal. In fact, the housing deficit was at the same approximate level as it had been in 1990.

The present housing problems consist of, first of all, the shortage of appropriate housing and, secondly, the bad conditions of the existing stock. About 7.5 million dwellings currently require repairs and around 700 thousand dwellings should be replaced in the nearest 5–10 years. Positive changes involve developments in social rental housing and dynamic development in private construction of houses. These positive changes and their results have played a significant role in the implementation of new housing policy, decentralization of housing policy to the local governments level and the introduction a number of programs, instruments and new institutions.

1. HOUSING AND NATIONAL HOUSING POLICY DURING THE TRANSITION

1.1 National Housing Policy Objectives and Legislative Changes

The introduction of a market economy to Poland at the beginning of the 1990s entailed changing the functions of all the national economic sectors and required the creation of completely new principles for the housing policy. The resulting market economy principles have effected the field of housing, first of all, by:

- 1) Introduction of market interest rates for credits;
- 2) Introduction of market principles for housing stock management based on economic calculations;

- 3) Increase in housing construction costs and building site prices;
- 4) Necessity of changes in the system concerning housing construction financing and in the role of the state and public finance in this field:
 - More efficient management of housing stock (a general withdrawal of direct subsidies, replacing them with housing allowances);
 - Changing the system of construction financing (new principles and mechanisms for enjoying credits, new forms and principles for collecting the financial means for housing construction);
 - More efficient and effective social rental housing construction (with moderate rents);
 - Settling ownership relations to enable the function of mortgage credits and the housing market.

The institutional and legal solutions introduced in 1990 have created the basis for determining the solutions necessary for the functioning of a housing market in Poland. The system changes that have taken place have subjected housing policy to the market laws. Some solutions, typically implemented by democratic countries, have been resituated. During the period discussed¹;

- The state monopoly over the process of construction, financing and housing usage was liquidated and the primary power to prepare and realize independent housing policies was given to the *gminas* (local governments); state budgetary subsidies were gradually substituted by local governments funding sources and private capital;
- The official monopoly of housing cooperatives was lifted, thus creating a basis for many systems of attainment of a dwelling;
- Limitations in the area of establishing separate ownership for housing units were lifted; dwellings became investment goods and the rules for management of common areas in residential houses were defined (condominium legislation);
- A reform of rental prices has begun, making it possible for a communal owner (municipalities) to set rental prices.

The changes required definition of the new housing policy. This was formulated in an era, during the beginning of the 1990s, of acute economic crisis in Poland. In such a difficult situation, the consideration of the new housing policy was a long-term process and the main issue was to define the status of housing, either as a market product or a social commodity. The transformation influenced the housing sector by following economic changes:

- Introduction of market interest rates on loans;
- Increase in housing construction costs;

- Introduction of housing stock management on market terms to economize rent prices, changes in the construction and housing economy financing system while limiting the financial involvement of the State.

During 1995–1997, the successive amendments to the principles of housing policy were accepted in order to improve conditions for development of housing construction and management (administration) of existing housing stock. The implementation of the new housing policy began with the introduction of a range of legal regulations. The basic legal Acts directly regulating housing issues were:

- On Settlement of Credit Relations (1989);
- On Housing Ownership (1994);
- On Lease of Dwellings and Housing Allowances (1994);
- On Amendment of the Act for Cooperative Law (1994);
- On Some Forms of Support for Housing Construction (1995);
- On Terms of Transfer of Enterprise Housing Owned by State Enterprises (1994);
- On Debentures and Mortgage Banks (1997).

The following legal Acts are also indirectly related to the housing sector:

- On Territorial Self Governments (1990)—a part of the state property was transferred to the ownership of municipalities, including rental housing stock;
- On Individual Income Tax (1991)—which introduced tax instruments for stimulation of investments in housing construction (building and renovation tax exemptions).

The first serious problems that appeared after the introduction of new principles resulted from the adjustment of market interest rates both for new and old credits (taken up in the previous period). Since January 1990, variable rates of interest had been introduced. These depended on inflation, which was very high in the time. This caused a rapid increase in the indebtedness for both housing cooperatives and individual borrowers. The cooperative housing stock had been completed, thanks to the credits taken up in the past period included over 2.6 million dwellings. About 35 percent of the urban population inhabited these dwellings and would unexpectedly face serious financial problems (at the beginning of 1990, the interest rates for housing credit were 115 percent). Thus, there was an instituted redemption for these interests by the state budget. Throughout 1990–1994, the principles of this redemption were modified several times to adapt to the current economic situation (level of inflation) and real possibilities of servicing the existing debts of housing cooperatives and their inhabitants.

The Act on Housing Ownership restored and unified the principles of separate ownership of dwellings and co-ownership of real estate, defined owners' rights and obligations,

as well as the terms for common property management. It also set the foundations for condominiums.

The Act on Lease of Dwellings and Housing Allowances eliminated the centrally determined rental prices and introduced the principle of regulating rents by communes (local governments) under guidelines defined by the Act. The Act also regulated various issues related to renting: terms for establishing rental prices, eviction, allocation of council housing and payment of housing allowances. The rents, in both communal and private rental stock, are now set by the municipalities themselves (in respect, however, to the central ceiling). The principle that rents should wholly cover maintenance costs of buildings has been adopted; but so-called regulated rents are obligatory until 2004. The maximum rent ceiling (regulated rent) applied to local government housing stock (as well as restituted rental stock until 2004) is set at a level of three percent of an apartment replacement value (costs of construction for a particular flat in current prices) annually. Within its territory, the local government may modify a rental policy and social aid. Considering the increase in the tenants' burden by growing housing expenditures, a system of housing allowances has been established.

In light of *the Housing Cooperative Act*, cooperative property received the status of private property and cooperative flats could be purchased by legal persons, while individuals became entitled to own more than one flat.

The Act on Some Forms of Support for Housing Construction, passed in 1995, has constituted the foundations for the launch of a new system of savings connected with possibility of taking a credit with interest rates lower than that of the market. For this purpose, the special Housing Saving Banks were established. The German *Bausparkasse* model was planned to be introduced too. However, it still hasn't come into operation. Saving in this bank allows acquisition of taxation reductions (income tax) or special premiums from state budget. The Act on Some Forms of Support for Housing Construction has also established conditions for development of rental housing with moderate rents, i.e. for low-income persons and households, constructed by the Social Housing Associations (TBS). It established the National Housing Fund that provides qualified loans for the purpose of new rental housing construction to the Associations.

As a result of the *Act on Terms of Transfer of Enterprise Housing Owned by State Enterprises*, companies gained the right to transfer housing estates to local governments and/or housing cooperatives.

The Act on Territorial Self Government supported one of the key goals of the new housing policy: the decision-making capacity was shifted from the central authority to the local governments. Under the Act, a part of the state-owned property, including housing resources owned by the State, was transferred to the ownership of local governments (communes). Pursuant to the provisions of the Act, the commune was responsible for catering to the needs of the local community, including the demand for housing. *Gminas* (communes) represent the lowest level of territorial self government;

2,489 *gminas* have been created, including 318 urban *gminas*, 567 urban–rural *gminas* in smaller towns, and 1,604 rural *gminas*. As of 1 January 1999, Poland’s local self-government system comprises voivodship governments, district (poviat) governments and *gmina* (commune) governments.

The legal Acts created a framework for changes in the housing sector. They provided the new institutions and tools to support the State and local government housing policies in a market economy environment. Special attention is deserved for following two programs:

- The housing allowance system;
- The social rental housing system.

1.1.1 Housing Allowances

The program for housing allowances addresses how to help the lowest income households with increasing housing costs (especially in connection with factual rent deregulation to the level of three percent of flat replacement value). The Act on Lease of Dwellings and Housing Allowances, adopted in July 1994, settled the general principles of lease of dwelling premises, the rights and obligations of tenants, the principles for price fixing and rental payment and the principles for granting assistance in the form of housing allowances. In order to protect the existing tenants against the effects of radical rental increases, the concept of “regulated rent” has been introduced. This is where the level of the rent cannot exceed 3% of the replacement value of the dwelling.

The regulated rent concerned the *gminas* housing stock, the state housing stock, restituted private rental housing stock (for running rental contract), and residential housing for non-profit purposes of specific legal persons². In other cases, free market rents were allowed to be introduced.

The *Gmina* Council establishes (in fact, by the Act, it is obliged to establish) differentiated rent prices, taking into consideration factors such as: location of the building (downtown, outskirts), position of the dwelling in the building (floor, exposure to the sun), technical facilities and installations that the dwelling is equipped with and the general technical condition of the building itself.

However, a considerable number of tenants, especially in urban areas, live in buildings which are privately owned. There, regulated rent was also enforced (restituted housing). This was a cause of conflict between tenants and owners. Extremely low rents did not ensure the necessary funds to cover the costs of maintenance and renovation. Also, in the communal housing stock, the increase in rent did not compensate for the growth in the maintenance costs. The average level of rent attained actually did not exceed 1.5% of the flat replacement value though higher increases were allowed by central legislation. This is partially due to local political populism and partially to the

duty to compensate the increase through housing allowances paid mainly from *gminas'* own budgets.

The basic principles of the present housing allowances system are, as follows:

- The *gminas* pay allowances to households that meet the conditions specified in the Act. Households with the statutorily defined level of income are eligible for an allowance, depending on the number of household members, irrespective of tenure
- Only persons living in dwellings to which they have legal title are entitled to a housing allowance, provided that the average monthly income, in the period of the last three months did not exceed 175% of the lowest retirement pension in a one-person household, and 125% in a multi-person household
- The amount of the allowance constitutes the difference between the real housing expenditures falling to the standard (allotted) usable area of the occupied dwelling (according to the size of household) and the amount of:
 - 1) 15% of the household income—in a one-person household;
 - 2) 12% of the household income—in a 2–4 person household;
 - 3) 10% of the household income—in a 5 persons or more household.
- The standard usable area (including admissible excess) is, as follows:
 - 1) for 1 person ($35 \text{ m}^2 + 30\%$)— 45.5 m^2 ;
 - 2) for 2 persons ($40 \text{ m}^2 + 30\%$)— 52.0 m^2 ;
 - 3) for 3 persons ($45 \text{ m}^2 + 30\%$)— 58.5 m^2 ;
 - 4) for 5 persons ($65 \text{ m}^2 + 30\%$)— 84.5 m^2 .
- The provision of housing allowances is obligatory for a commune if the household in question fulfills the criteria
- The housing allowance is paid to the building administrator (except the lump sum for fuel or when the applicant is an owner of a family house)
- Payment of the housing allowance is the task of *gminas*, which also receive subsidies from the state budget for that purpose. The subsidies now cover, on average, about 44% of total housing allowance expenses

Between 1995–2000, around 6–7% of the total number households received housing allowances.

1.1.2 The Social Housing Associations (TBS)

Rental housing construction, conducted by the non-profit Social Housing Associations, is a partial solution to the problems of the actual physical lack of housing in Poland. They allow for the creation of rental housing stock available to medium income households. The legal framework concerning the social housing construction was set in the

Act on Selected Forms of Support for Housing Construction (1995). The rents set for Social Housing Associations dwellings are subject to rent regulations, construction price is controlled by cost limit per square meter of floor area, the dwellings have to be fully equipped and meet the energy saving requirements with regards to heating and hot water.

Based on the provisions of the Act, the National Housing Fund (NHF) was established in 1995 to grant credits for construction of rental and cooperative housing. The interest on the credits is variable, equal to a half of the rediscount rate of bills of exchange in the National Bank of Poland. At present, credits from the National Housing Fund can cover up to 70% of an investment's costs. Moreover, 10% of the costs of the project may be covered by direct grants from the Fund, if the construction project has been realized in time and according to the conditions set in the contract between the Fund and the Association.

Apart from preferential credits from the Fund, the Act also foresees other sources of funding for coverage of the remaining costs of construction, a so-called participation. The provisions of the Act stipulate that an employer, seeking to obtain dwellings for his employees, as well as other persons interested in obtaining dwellings via a third person—employees (i.e. parents indicate children), may reach agreements with the Association on participation in the construction cost.

At the same time, the Act sets the conditions for establishing Social Housing Associations (TBS) as non-profit organizations, responsible for building and managing rental housing for persons with average incomes. The Social Housing Associations may be established as: limited liability companies, joint stock companies or cooperatives of legal persons. The main activity for these Associations is the construction of residential houses and their exploitation under the leasing principles. However, the Associations may also:

- Acquire residential buildings on the open market;
- Carry out renovations and the overhaul of buildings destined for rent, including renovation/adaptation of buildings for housing purposes;
- Carry out other activities connected with housing construction and its accompanying infrastructure (even construction of housing sold on the open market for market prices; in this case they cannot, however, use preferential credits from the Fund).

The potential surplus (profit) of the Associations may be used exclusively for the statutory activity. Thus, they are exempted from the corporate income tax. The rents in the housing stock of the Associations (the rent ceiling is equal to 4% of the flat replacement value in this case) are established based on the housing association's calculation and by the *Gmina* Council decision based on the territory in which the housing stock is situated. The sum of the rent for all the dwellings, exploited by the Association, should

be sufficient to cover all the maintenance and renovation costs of the buildings and repayment of the credit applied to their construction.

Apart from the rent, the lease agreement may stipulate that the tenant must make a deposit as security for payment of the lease rent outstanding on the day of leaving the dwelling, in the amount not exceeding 10% of the value of the dwelling. Only individuals are entitled to lease a dwelling from the housing stock of the Associations. Other criteria include:

- Tenants cannot have another dwelling in the given location (city)
- Income of their households may not exceed 130% of the average monthly salary in the given *voivodship* (region) by more than:
 - 20% in a single person household;
 - 80% in a two-person household;
 - an additional 40% per each additional person in a multi-person household.

The Act has been amended several times. The last important amendment concerned the widening of the scope of sources of financing the National Housing Fund. It created a possibility for the Fund to:

- Draw loans both from domestic and foreign banks and give state securities and guarantees on their repayment;
- Sell the receivables to mortgage banks under credit facilities granted by the Fund;
- Obtain state warranties for the issuance of bonds.

In 2002, the Fund was additionally supported by foreign loans. Rental housing provided by new category of investors and administrators (the Social Housing Associations), introduced by the Act, is now the most dynamically developing form of investment in the housing economy.

By May 15, 2001, the Minister of Regional Development and Construction and, presently, the President of the State Office for Housing and Urban Development, have signed 326 approvals in favor of agreements, statutes or articles determined by the Social Housing Associations. Among the existing 326 Associations, most (310) are limited liability companies; others are joint stock companies (10) and legal persons' cooperatives (6).

The accumulated number of dwellings credited by the National Housing Fund, up to the end of March 2001, is 23,000 dwellings (in 2000—10,000 dwellings). The number of dwellings completed during the period 1996–2000 reached almost 15,000 (in 1996, only 24 dwellings were completed). The system has expanded region-wide but there is a significant differentiation of the number of the Associations in particular voivodships (from 5 to 34).

The Associations have gained greater acceptance among self-government authorities and industrial circles, taking over the responsibility to meet the housing needs of local communities.

Table 3.2
Social Housing Construction in Poland—Examples

Location of TBS —Name of the City	Number of Dwellings/Surface [m ²]	Amount of Rent [in % of the Replacement Value]	Amount of Rent [PLN/m ²]
Słupsk	40/1,736	2.51	4.8
Kraków	44/2,550	3.0	6.2
Szczecin	80/4,314	3.6	6.2
Katowice	16/983	3.2	6.4
Radom	56/3,268	2.1	5.0
Wałbrzych	36/1,807	3.83	6.5

NOTE: Exchange rate USD 1 = PLN 4.09.

SOURCE: BGK–NHF data.

The expenditures that a *gmina* would bear, to finance the full costs of construction of municipal dwellings, could serve the construction of three times more rental dwellings, if the preferential credit from the National Housing Fund towards the Association is properly applied.

The Associations also allow *gminas* to conduct active shaping of the actual dwelling structure and support the filtration process (moving of households from *gminas* housing stock to the new Social Housing Association dwellings). For example, vacated dwellings can be used by the *gmina* as “social” dwellings (see below). The Association can also be a good administrator for residential houses, releasing the *gmina* of the necessity of managing them.

Box 3.1
Management of Housing Stock in Radom

The Radom TBS (Social Housing Association), in addition to its construction activities, manages Radom’s gmina housing and is apparently highly regarded as a management model. Most importantly concerning rent policy, however, good results in building management make it possible for the TBS to put pressure on those councilors who are the decision-makers responsible for approving higher regulated rent levels. The TBS has pushed for rent increases; this process forges an important link in combining policies for new construction, rehabilitation, and calls for improved subsidy policies. Radom also has an efficient housing allowance system, which is integrated with overall social assistance programs.

SOURCE: Local Government Rent Policy and Best Practice in Poland, report prepared for USAID (project 180-0034) by Sally R. Merrill and other - Urban Institute, Krakow Real Estate Institute, Housing Research Institute, 1998.

The Association, as an administrator of a residential housing stock, acts under the conditions of the current market competition. This has an influence on the reduction of costs and increase of the quality of the provided administration services. Taking into consideration the significant increase in the number of dwellings constructed in Poland in a short period of time, we ought to evaluate the effects of the program of rental housing as very positive.

1.1.3 Other Programs for Supporting the Housing Sector with Public Funds

Besides the two programs presented above, other programs supporting the housing sector have been introduced too. The following programs have been adopted during the first implementation phase of new state housing policy (1994–1998):

- *Thermal modernization support program* is a market-oriented instrument designed to improve energy properties for housing stock of all types. The essence of the system consists of co-financing credit, based on the market interest rate—in the form of its partial repayment—provided that the precisely defined conditions of realization of the project are met. The basic assumption of this program is to maximize both the technical and economic efficiency of the project. The Act concerning this was adopted by the Parliament in 1998. This program is currently in its implementation phase.
- *Tax relief from the personal income tax* is entitled to taxpayers on the grounds of the expenditures for satisfying their own housing needs. Firstly, the tax is reduced by construction expenditures or expenditures connected with a purchase of a newly constructed dwelling (also a plot of land for construction of a residential building). It is also reduced by regular savings kept in one bank account specified for running a housing fund and expenditures for renovation and modernization of buildings and dwelling premises (in accordance with limits defined in the Act). During the period of operation, there were many amendments. This should be completed sometime in 2002.

From the point of view of the local government housing policy, the following new programs are important:

- *The residential buildings renovation support program* was a necessary supplement to the above mentioned programs. The gradual balancing of rental prices to a realistic level increases the owners' ability to maintain the buildings. However, it will not allow for quick accumulation of larger funds necessary for carrying out larger overhauls. Without such actions, some part of the existing stock will be irreversibly lost. This program, a credit subsidized by the state, aims at covering the debt on renovation inherited from years past. The Act concerning

this was passed by the Parliament in April 2001, but the program has not yet been introduced.

- *Development program for technical infrastructure connected with housing construction* creates possibilities for *gminas* to draw preferential credits from the National Housing Fund for construction of the technical infrastructure accompanying all forms of housing construction. The removal of one of the basic barriers for new housing investments (the shortage of a sufficient quantity of infrastructure-fitted land for construction purposes) will significantly contribute to reduction of the costs of housing construction. This was the result of previous programs amendments.
- *Own apartment program*—The Act on Subsidies to Credits Granted for Own Dwellings was adopted by the Parliament in April 2001. The “own apartment” program was addressed to households in the average and higher income range. The state assistance involves partial financing of interest on long-term loans. The amount of credit cannot exceed 70% of the cost of purchase or construction of the house. Subsidies will only be applied when the annual income of borrower’s household does not exceed given maximum of PLN 109,000 (USD 26,650). The Act specifies three income brackets and corresponding levels of state support in the form of interest subsidies on credits (10%, 25% or 50% of interest). Assistance in repayment of interests is available for credits financing maximum of 50 m² of the dwelling space. Due to the state budget’s large deficit in 2001, this program has not yet been introduced.

1.1.4 Privatization of the Housing Stock

Privatization of housing resources was one of the most vital processes related to the housing policy, the development of housing, and the management of housing stock. *Gmina* and company housing was already offered for sale before the beginning of the transformation process. This trend increased after 1990, but the terms of sale varied and were regulated by different regulations. For example, the Acts concerning state enterprises in general, have different provisions regulating housing resources of the State Treasury, the Polish State Railways, the Military Housing Agency, etc. The priority right of purchase was offered to sitting tenants who were also entitled to a discount. Discounts varied from 50% to 80% of the apartment’s market value and various criteria were applied.

Similar terms were applied to *gminas*. There was no central regulation on privatization prices, scale of privatization, or the right to buy for sitting tenants. The rate of price discount was not generally influenced by the size of *gmina* or the location of the apartment. The Act on Housing Ownership, enforced in 1995, introduced condominiums and supported the privatization of municipal and company resources. In 2000, there were about 25,000 condominiums in Poland comprising 671.3 thousand apartments.

The privatization process produced various results. Due to the preferential terms of purchase, some apartments were bought by persons in the low income bracket who now find it difficult to cover the utility costs set by the condominium board. The poor physical condition of many buildings and flats has also had an adverse impact on the management of condominium resources. On the other hand, those former tenants who had become apartment owners are now more likely to introduce effective and rational management methods.

The privatization of housing stock and the establishment of condominiums created a demand for professional real estate administrators. Licenses for real estate administrators (physical persons) were introduced under the 1997 Act on Real Estate Management in view of that demand and to regulate the administrators' responsibility and the owners' safety. Around 11,000 licenses had been issued by the President of the State Office for Housing and Urban Development by the end of 2001. At present, *gminas'* resources are also managed by licensed administrators (physical persons or firms with licensed administrators on staff).

1.1.5 The Main Effects of the National Housing Policy

The radical changes caused by the process of market transformations, an acute economic crisis, on one hand, and a deep recession on the housing market and poor housing conditions, on the other, necessitated new efficient solutions. To what extent have the implemented measures been effective, if at all? The scope of the housing construction between 1991–2000, including the new investor structure, is shown in Table A3.9 of Appendix II.

The changes in financing housing construction significantly altered its structure as well as the scope. The scope of cooperative housing construction, predominant in the previous years and which had received massive financial support from the State, significantly decreased. Municipal construction also witnessed a drop, even though local governments had become responsible for satisfying the citizens' housing needs. Local governments' status in regards to the provision of housing resources was altered by the dynamically growing Social Housing Associations (TBS). These are mainly private investors that have a growing share of the housing market and, together with the housing cooperatives, were responsible for erecting 90% of new apartments in 2000.

The impact of new changes in the investor structure and the privatization of municipal and company housing resources have led to changes in the volume of existing housing resources. This, along with changes in their ownership structure, technical condition and furnishing standards, has all lead to an improvement in housing conditions in Poland. Changes in the volume and structure of housing resources are shown in Tables 3.3 and 3.4.

Table 3.3
Existing Housing Stock by Tenure

Tenure	1994	1996	1998	1999	2000*
Dwelling number total in thousands within (by %)	11,433.9	11,547.1	11,667.7	11,173.3	11,844.8
• cooperatives (including “ownership” cooperatives)	27.7	27.7	28.5	28.5	28.6
• <i>gminas</i> (municipalities)	17.8	14.6	13.3	12.4	11.5
• State (state companies)	11.0	7.9	5.8	5.2	4.6
• private	47.8	49.7	52.4	53.9	55.3

* Housing stock in 2000, amounts to 11,844.8 thousand dwellings: 7,953.2 in urban and 3,891.6 in rural areas.

SOURCE: Central Statistical Office, Housing Economy (1994–2000).

Between 1994 and 2000, the share of privately owned apartments (including “ownership” housing cooperative apartments and condominiums) increased from 63% to 74%. From the point of view of housing resource management, as well as for the role played by the State and local governments in the effective management, this was a crucial change.

The housing deficit in Poland continues to be high and the level is estimated at 1.3–1.5 million apartments. Around 600,000–700,000 apartments are in poor physical condition and require replacement.

As for housing conditions in Poland, some progress can be noted between 1990 and 2000. Still, the changes are not significant. Only minor improvements have been made and housing conditions in Poland still rank far behind those of most European countries.

Table 3.4
Housing Stock Age Structure in 2001 [%]

	Period of Construction				
	Before 1945	1945–1970	1971–1978	1979–1988	After 1989
Total of dwellings	27.1	28.7	17.3	16.9	10.0
Urban areas	24.7	26.1	19.1	18.6	11.5
Rural areas	31.7	34.1	13.5	13.6	7.1

SOURCE: Central Statistical Office, Housing Economy 2000.

Table 3.5
Selected Indices of the Housing Situation

Specification	1990	1995	2000
Number of apartments per 1,000 residents	288.7	297.6	306.5
Including: urban areas	308.5	320.9	331.1
Persons per 1 apartment	3.40	3.29	3.20
Including: urban areas	3.15	3.03	2.92
Rooms per 1 apartment	3.41	3.45	3.48
Including: urban areas	3.31	3.35	3.37
Including: urban areas within <i>gminas</i> resources	—	2.83	2.78
Average usable area per apartment	59.6	60.5	61.5
Including: urban areas	54.3	55.2	56.2
Including: urban areas within <i>gminas</i> resources	—	45.8	45.9
Average usable area per person	17.5	18.4	19.2
Including: urban areas	17.2	18.2	19.3

SOURCE: Central Statistical Office—Statistical Yearbook 2001 and previous year.

1.2 The Housing Market and Housing Finance

The solutions and instruments introduced at the beginning of the transformation period as part of the state housing policy were designed to limit state involvement in housing subsidies and to offer assistance to selected social groups. A set of financial instruments was developed to support new housing projects. Such financing tools included the housing deductions from income tax introduced in 1992 and contract loans related to the housing saving scheme. Preferential loans, with low interest rates, were introduced to support the construction of social housing.

In the first two instances, the State offered indirect support to the scheme. The central budget directly supported the development of TBS and subsidizing housing allowances of the *gminas*. However, it should be pointed out, that the State offered assistance to finance and purchase liabilities in housing resources erected before the transformation period (in the 1980s and earlier). Direct and indirect costs imposed a substantial burden on the central budget. In particular, at the initial phase of development, which was not directly reflected in the achieved results.

This applies, in particular, to the state's direct spending which, throughout the entire period of 1991–2000, was only channeled in part to support new housing projects.

This situation was altered by the indirect spending related to housing tax relief which, on the other hand, prevented central authorities from conducting an active housing policy. In view of the amount of funding devoted to housing projects from the total budget expenditures, and in relation to GDP, it could be concluded that housing construction has not received adequate state assistance to address its needs and economic possibilities. The structure of central budget spending on housing is shown in Table A3.10 in Appendix II.

The limited and declining involvement of public resources for financing of housing construction has led to a search for other finance resources. Such resources included bank loans but mostly came from the consumers' own savings. A imposing barrier in housing construction development was the late development of mortgage banks and mortgage loan system in Poland. Specialized mortgage banks appeared only two years ago and only three such banks now operate in Poland.

Table 3.6
Financing of Housing Investment Outlays [%]

Sources	1994	1996	1998	1999	2000
Private funds	54.8	62.0	62.2	59.5	56.4
Bank Credits	9.5	9.8	10.3	14.0	16.0
Public funds (including tax relief)	35.7	28.2	27.5	26.5	27.6

SOURCE: State Office for Housing and Urban Development.

Expensive and relatively unavailable bank loans, limited resources, and the typically low average income posed a serious barrier to housing development and the rational management of housing resources. Despite a greater share of private housing projects, these problems seriously affected the amount of housing construction, as did the low rental prices which failed to cover actual maintenance costs.

As a consequence, despite the introduction of new policy plans and the launch of new programs and instruments, in practice, the housing policy has not been effectively and conscientiously realized. The division of responsibilities between the State and local governments, where the latter had very limited means for catering to the local demand and did not receive adequate state assistance, could not have generated fully satisfactory results.

1.3 Distribution of Housing Policy Tasks between the State and Local Governments

At the onset of the transformation process, Poland was divided into 49 voivodships and 2,483 *gminas*. This formed the backbone of the local governmental system. This two-tier division of self-government was in place until the end of the 1998, at which point the administrative reform was introduced. As of January 1, 1999, a three-tier system was introduced, comprising 16 *voivodships* divided into 373 districts (*poviats*) and 2,489 *gminas*.

The role of public administration in Poland's housing sector is defined by Article 7 of the Constitution, which outlines "*the policy of public authorities will cater to the citizens' demand for housing; public authorities will, in particular, counteract homelessness, support social housing projects and the citizens' efforts to purchase private housing.*" The provisions are also addressed in the 1990 Act on Territorial Self Government's Article 7, sections 1 and 2, which state that the *gmina* is responsible for catering the collective needs of the self-governing community.

Gminas' tasks include the payment of housing allowances and management and administration of own housing resources. The *gmina* caters to the housing needs of local residents by providing lower income residents with flats in buildings owned by the *gmina* and by enabling the residents to purchase *gmina* property for the construction of single-family housing and flat blocks under convenient terms. Under the provisions stipulated by the Act on Lease of Dwellings and Housing Allowances, the *gmina* has an obligation to provide council housing to persons in the lowest income brackets.

"*Social*" apartments (those owned by *gminas*) form a special category of municipal housing. "Social" apartments are mostly apartments with low assessment value, resulting from poor physical standards. They are designed for families in difficult financial situations; allocated only for a predefined temporary period of time. Rents for such dwellings are set by the *Gmina* Council and they are usually lower than the rents in other *gmina* housing (around 1/2 of the basic rate). A definition of "social" housing is provided in the Act.

In regards to the local rent price policy, *gmina* authorities were assigned a specific role. Under the provisions of the Act on Lease of Dwellings and Housing Allowances, *gminas* have the right, and obligation, to set official rental prices and to grant housing allowances. Official rental prices apply to apartments under the *gmina's* housing resources, the State, companies, and, until the end of 2004, apartments in private housing resources that were occupied in the past. The rental prices set by the *gmina*, in the above resources, significantly affect resource management, including the maintenance and overhaul of flats and buildings.

Housing allowances, granted by the *gmina*, are designed to protect households from becoming excessively burdened with housing costs. *Gminas* paid out a total of 9,087,000

housing allowances in 2000; allowances were acquired by 7.6% of Polish households. Recent legal amendments have extended the availability of housing allowances (enabling persons with higher incomes to also apply for the allowances). This will increase the number of households taking advantage of this assistance and should contribute to encouragement of the *gmina* rental policy and the management of its housing resources.

Gmina budgets³ were seriously burdened in respect to benefit payments, especially considering that the value of central subsidies allocated for the purpose continued to decrease. In 1995, state subsidies accounted for 55.9% of the total sum of housing allowances paid. In 1997, state involvement was reduced to 50.2% and then, in 1999, to 39.9%. The shortage of funds in the *gmina* budget and the obligation to pay housing allowances could prove to be obstacles for setting the rent prices at a level that could hinder the rational management of the *gminas'* housing resources, including overhauls.

The *gmina* is also under an obligation to maintain own housing resources, make decisions on the sale (privatization) of apartments and terms of sale. The former privatization of municipal resources and the establishment of condominiums, with various degrees of *gmina* involvement, significantly influence the method used to manage those resources. *Gminas* have found a different method of managing local resources and improving their technical condition by supporting condominiums. Many municipalities have already initiated such methods (see the two different case studies, concerning restructuring of the municipal housing management and maintenance, in the following chapter).

Gminas have the following scope of authority in regards to new construction projects:

- Developing municipal apartments;
- Establishing or participating in the establishment of the Social Housing Associations and, as part of this scheme, constructing rental apartments;
- Constructing “social” apartments or adapting the existing resources for this purpose;
- Creating favorable conditions for other investors’ housing development by promoting the availability of land plots via media connections and facilitating administrative procedures for investors;
- Shaping land management policy, including the real estate tax rate which is partially defined by the *gmina*, to attract investors from outside the *gmina*.

In view of this, the decentralization of the housing policy has provided local governments with a substantial degree of authority, enabling them to introduce independent strategies to cater to local housing needs. Over the past decade, the system has been able to provide effective solutions to housing problems not only encountered at the local level.

The past decade was also fraught with a serious obstacles which detracted from the effectiveness of the local governmental role:

- Tasks imposed on local governments were out of proportion to their access to financial resources and central budget subsidies;
- Local governmental officials often lacked the required knowledge, skills, and experience regarding the available housing policy instruments and new programs;
- Progress made in the state housing policy, accompanied by changes in legal regulations and procedures, impeded the shaping of housing policy at the local level;
- Political disputes, also observed at the local governmental level, have contributed to the lack of well-designed housing programs and strategies.

2. EFFICIENCY AND EFFECTIVENESS OF LOCAL GOVERNMENT HOUSING POLICIES

The following statistics have been generated from general statistical sources of the Central Statistical Office, special surveys realized by the Housing Research Institute and the Local Government and Housing Survey (LGHS) conducted especially for this project.

The LGHS was carried out in selected cities throughout Poland in December 2001. The survey questionnaire was addressed to presidents and mayors of cities. According to the assumptions, the group surveyed in Poland comprised of cities with populations exceeding 20,000 inhabitants.

The total number of cities in Poland, at the end of 2000, totaled 880. Of these, 651 cities had a population under 20,000 and 229 cities had a population equal or higher than 20,000. However, of the 229 cities, their population represented 80% of the urban population and 82% of the municipal housing stock was located in these cities.

Table 3.7

Basic Information Included on the Local Government Housing Survey

The size of <i>Gmina</i> (by Population)	The Number of Cities as of 31.12.2000	Relative Frequency [%]	The Number of Questionnaires Received	Relative Frequency [%]	The Share of Questionnaires in Relation to the Number of Cities [%]
20,000–49,999	137	60	19	33.9	13.9
50,000—99,999	50	22	18	32.1	36.0
100,000–199,999	23	10	7	12.5	30.4
200,000 and over	19	8	12	21.4	63.2
Total	229	100	56	100.0	24.5

Almost 25% of the city groups included responded to the questionnaire. The total number of the population in the city which responded to the questionnaire amounted to 7.7 million, so in the surveyed cities lives 40% of the population out of the total population living in this group of cities.

The structure of the cities which responded to the survey differs from the actual overlying city structure itself. The cities which were best represented were cities with a population over 200 thousand and the greatest difference in the representation was in the bracket from 20–49,999 thousand inhabitants.

The majority of questions in the survey were of a qualitative character. However, a section of the survey concerned quantitative aspects. Therefore, due to differences in the actual structure within the group surveyed, weighting was applied to the quantitative results for the particular group of the cities. According to the methodology applied (for weighing the quantitative results), the weights were accepted on the basis of the actual number of the cities in a given group.⁴

Table 3.8
The Weighted Ratios Adjusting the Results
for the Given Number of Population

The Size of <i>Gmina</i> (Number of Population)	The Weighted Ratio
20,000–49,999	1.763
50,000–99,999	0.679
100,000–199,999	0.803
200,000 and more	0.387

In the following sections weighted averages “per municipality” are thus presented. The data, regarding the share of the *gmina* housing on total housing stock in the surveyed cities, turned out to be unreliable. Therefore, after rejecting the extreme values, it may be concluded that the share ranged in the surveyed cities from 3.5% to 45%.

The total number of rental dwellings in the surveyed group of cities was represented by 409 thousand dwellings, consisting of an average of 2.7 chambers with the average living space of 44 square meters. In principle, such a living space defines the average one-bedroom apartment in Poland. Both the average number of the rooms in the apartment, as well as the usable floor space, does not significantly differ in the cities of different sizes. The differentiating feature is the average number of apartments held in the *gmina* stock.

Table 3.9
The *Gmina* Stock for the Surveyed Cities

The Size of <i>Gmina</i>	The Average Number of <i>Gmina</i> Apartments	The Average Usable Floor Space/m ²	The Number of Rooms
20,000–49,999	1,208	44.7	2.7
50,000–99,999	3,240	43.7	2.6
100,000–199,999	8,079	42.5	2.5
200,000 and more	22,617	44.3	2.8
Weighted average	7,307	44.0	2.7

SOURCE: LGHS.

2.1 Local Housing Policy Strategies and Objectives

Half of the cities surveyed adopted housing policy strategies approved by the Council. One fourth of the cities are waiting for the adoption of a strategy and another fourth of the cities have no housing policy strategy at all (this represents more than the half of the small cities with up to 50 thousand inhabitants).

The definition of the purposes of the housing policy suffers similar proportions. Around 70% of the cities claim that such goals were clearly defined. However, over 20% of the cities have not formulated such goals. These are the smallest cities, which have not worked out a housing strategy yet.

Among the major goals of housing policies (ranked according to importance), very often general *cliché* phrases appear, such as: “improving housing conditions”, “satisfying the housing needs of the local communities”, “creating better conditions for construction development”, “the development/intensification of housing construction”, “improving citizens’ standards of living”. The goal which is at the top of the list, and often articulated, is “the development of social housing”. This is understood to mean the construction of new, and the adaptation of existing, “social” housing apartments for families living in poverty. It is obvious that the cities which have adopted a housing strategy, have defined more precisely the goals of housing policy. Synthetically, the goals of housing policy may be formulated as:

- Satisfying housing needs, especially in the area of “social” housing;
- Halting the degradation of the existing stock as well as improving effectiveness;
- Growth in rental housing construction conducted by the Social Housing Associations.

Table 3.10
The Adoption of a Strategy/Housing Policy [Number of Cities]

The Size of <i>Gmina</i>	Adopted Strategy	Have a Strategy, But It Has Not Been Accepted	Does Not Have a Strategy
20,000–49,999	7	2	10
50,000–99,999	11	4	3
100,000–199,999	3	3	1
200,000 and more	7	5	—
Total	28	14	14

SOURCE: LGHS.

In principle, there are no goals relating to complex revitalization of the urban area (only two cases). Moreover, the revitalization of stock as a goal of housing policy is rarely mentioned. The hierarchy of fixed social goals offered by ourselves, to the respondents, is listed in Table 3.11.

Prioritizing the goals within the groups of cities does not differ. What is very significant is the lack of conviction toward privatizing stock as an essential social goal, as well as the neglect towards the problem of social segregation.

The lack of clear definition, in regards to the goals of housing policy, does not mean that activities that aim to remedy the situation have not been taken. Among the municipalities, programs which were carried out, very often involving concrete activities, tasks, or undertakings have been stated. These include items, such as, support for new housing construction conducted by the Social Housing Associations, programs for the construction of cheap *gmina* dwellings, programs for the improvement of technical conditions and standards for *gmina* flats, programs for privatization of stock and services related to the management of stock, preparation and development of land, programs for implementing change to the stock in order to obtain “social” dwellings, programs for ensuring dwellings for persons brought up in the care of the State (i.e. state homes, orphanages).

According to the opinion of respondents, among the programs which were the most effective in fulfilling the goals, the most frequently cited were:

- Programs for the development of “social” apartments in regards to the new and old stock (swapping, as well as reclassification, of existing dwellings as “social” apartments);
- Programs for the construction of rental housing by the Social Housing Associations, co-financed by means obtained from the National Housing Fund;
- Modernization, thermo-modernization and repair to the existing *gmina* stock;

- Creation of system of housing allowances;
- Preparation and development of the land for housing construction.

Among the “interesting” activities to be noted, for example, are credits granted by the *gmina* for the repairs of buildings belonging to condominiums.

Table 3.11
Ranking of Goals in Local Government Housing Policies

Goal	Average Priority Mark the Highest—1; the Lowest—9
Higher affordability of housing for middle and low income households	2.6
Improvement of housing conditions, higher quality of housing	3.67
To provide housing for homeless people	4.54
To meet shortage of housing for disabled, handicapped people	4.75
To meet shortage of housing for elderly people	4.79
Higher labor mobility	5.04
Support for home-ownership and private housing construction	5.15
Introduction and/or improvement of tenant participation on housing management	5.62
Maintenance or creation of social mix preventing social segregation	6.34

SOURCE: LGHS.

2.2 Local Government Housing

2.2.1 Overview

Political transformations in Poland revolutionized the structure of housing resource ownership. The greatest changes concerned changes in municipal (*gminas*) housing resources, the legal structure for utilizing cooperative housing and the transfer of ownership rights in company housing. The number of apartments owned by *gminas* (municipalities) fell by 657,000 in the period between 1992–2000 (by about a third).

On the other hand, as the result of the Act on Housing Ownership, condominiums were established. This term refers to an apartment block, where a part or all the apartments constitute separate properties owned by individuals as confirmed by an entry in the Mortgage Register. The number of apartments, represented as the property of individuals in buildings co-owned by the *gmina*, increased nearly three-fold. At present, they stand for nearly 5% of housing resources in Poland, while the share of municipal housing resources fell to 11.6%.

Table 3.12
Housing Stock Ownership between 1992–2000

Specification	1995	1996	1997	1998	1999	2000
Inhabited apartments [thousands]	11,491	11,547	11,613	11,688	11,763	11,845
• housing cooperatives	3,188	3,205	3,263	3,329	3,351	3,387
• <i>gminas</i>	1,733	1,692	1,630	1,555	1,459	1,371
• condominiums*	302	359	427	485	542	558
Share of <i>gmina</i> apartments [%]	15.1	14.7	14.0	13.3	12.4	11.5
Share of condominium apartments in the buildings co-owned by <i>gminas</i> [%]	2.6	3.1	3.7	4.1	4.6	4.6

* Apartments owned by individuals in buildings co-owned by *gminas* (without company co-owned buildings).

SOURCE: Central Statistical Office—Statistical Yearbook 2001 and previous years.

Table 3.13
Apartments in Urban Areas, as of 31 December 2000

Size of <i>Gmina</i>	Number of Apartments [Thousands]	Share in Urban Housing Resources [%]
Under 10,000	651.2	8.2
10,000–19,999	809.0	10.1
20,000–49,999	1,316.7	16.6
50,000–99,999	1,088.9	13.7
100,000–199,999	1,018.4	12.8
200,000 and higher	3,068.9	38.6

SOURCE: Central Statistical Office—Housing Economy 2000.

Out of a total of 11,845,000 apartments in Poland, around 7,953,000 are located in urban areas; the vast majority (82%) are in cities with populations above 20,000. *Gmina* housing is situated mainly in urban areas. Out of a total of 1,371,000 of municipal apartments in Poland, 1,227,000 (around 93%) were situated in urban areas. Only 94,000 flats were located in rural areas. The total usable area for municipal apartments in 2000 reached 63.2 million m² (including 58.6 million m² in urban areas).

Gmina housing represents a 16% share of the total number of apartments in urban areas, while housing from cooperative resources makes up a 42% share. *Gmina* apartments are located in 187,885 buildings: 102,987 buildings constitute the sole property of the *gminas* (54.8%) and 84,898 buildings are only co-owned by the *gminas*. The situation varies in regards to the location of housing resources and to whether they are in urban or rural areas. The internal ownership structure, in relation to the number of apartments, for 2000 is presented in Table 3.14.

Table 3.14
Buildings, and Apartments within Buildings,
Owned and Co-owned by *Gminas* in 2000

Specification	Urban Areas	Rural Areas
<i>Number of Buildings</i>		
Owned by <i>gminas</i>	75,458	27,529
Co-owned by <i>gminas</i>	78,930	5,968
Total	154,388	33,497
Share of buildings owned by <i>gminas</i> [%]	48.9	82.2
<i>Number of Apartments</i>		
In buildings owned by <i>gminas</i>	514,788	514,788
In buildings co-owned by <i>gminas</i>	762,190	762,190
Total	1,276,978	94,526
Share of <i>gmina</i> flats in buildings owned exclusively by <i>gminas</i> (in %)	40.3	81.3

SOURCE: Central Statistical Office—Housing Economy 2000.

There are also buildings under “obligatory *gmina* management”. This mainly includes buildings with undetermined legal and ownership status. In 2000, there were

9,000 such buildings with a total of 77,000 apartments. As a result of restitution of property to former owners, the volume of this type of housing has been reduced over the past few years (for instance, there were 11,800 buildings with 101,000 apartments under obligatory *gmina* management in 1997).

“Social” apartments form a special category of municipal housing; they are designed for the lowest income households with the highest social need. The “social” housing stock for 1995–2000 is, as indicated in Table 3.15.

A section of *gmina* housing resources remains uninhabited, including the following types of housing (as classified in accordance with state statistics): apartments not allocated in new buildings, apartments undergoing capital overhauls, apartments uninhabited as the result of court or executive proceedings in progress, apartments uninhabited due to poor technical conditions and apartments temporarily in use for non-residential purposes such as offices, studios, and doctors’ offices. The number of uninhabited apartments in *gminas* resources for the period between 1995–2000 are shown in Table 3.16.

The volume of uninhabited resources is low due to the housing deficit in Poland. *Gminas* also possess utility premises. As of 31 December 2000, there were 95,336 utility premises with a total area of 7.6 million m² in buildings owned or co-owned by *gminas*. This is including 41,783 *gminas* premises in buildings owned solely by *gminas* and 38,215 premises in buildings co-owned by *gminas*. Thus, *gminas* owned a total of around 80,000 utility premises with a usable area of 6.5 million m².

Table 3.15
Share of “Social” Housing in *Gmina* Resources

Specification	1995	1996	1997	1998	1999	2000
<i>Gmina</i> housing [thousand]	1,733	1,692	1,630	1,555	1,459	1,371
• including: “social” apartments	16.4	18.5	19.9	22.6	23.9	29.6
Share of social housing [%]	0.9	1.1	1.2	1.5	1.6	2.2

SOURCE: Central Statistical Office—Housing Economy 2000 and previous years.

Table 3.16
Uninhabited *Gmina* Housing Stock

Specification	1995	1996	1997	1998	1999	2000
Uninhabited flats [thousands]	16.8	17.0	16.4	16.8	17.6	18.4
Share of uninhabited flats [%]	0.9	1.0	1.0	1.1	1.2	1.3

SOURCE: Central Statistical Office—Housing Economy 2000 and previous years.

The remaining utility premises (around 15,000) are owned by individuals and are situated in buildings co-owned by the *gminas* and/or individuals. The right to own utility premises is of paramount importance at the *gmina* level for sustaining municipal housing policies. Most the revenue generated from utility premises management is channeled to finance municipal housing, in particular, for the overhaul and modernization of existing resources.

The main problems with *gmina* resources concern low qualitative standards, lack of basic furnishing and installations and poor technical conditions resulting from the age of houses and inadequate expenditures provided to refurbish and modernize the resources. In apartments situated in urban areas, the level of basic facilities provided is presented in Table 3.17.

Table 3.17
The Level of Provisions by Basic Facilities [% of Total Apartments]

Specification	1990	2000
Water supply	95.3	97.6
Toilet	86.0	90.3
Bathroom	83.5	88.3
Gas	71.8	76.7
Central heating	74.4	80.8

SOURCE: Central Statistical Office—Statistical Yearbook 2001 and previous years.

The figures mentioned above have been calculated reflecting the urban average, including private resources and improvement in indices resulting mainly from the construction of new apartments. However, the standard of municipal resources is generally lower than the average. Nearly 190,000 apartments in Polish cities do not have access to water works and around 800,000 apartments do not have toilets or bathrooms (the shortages in facilities' standards apply in a large part to *gmina* resources).

According to estimates, of the total 1.9 million apartments in buildings owned or co-owned by *gmina*, 47% are located in buildings erected before 1945 and another 47% in buildings erected between 1945 and 1970. Only 6% of those apartments are located in buildings erected after 1970. Thus, it can be said that 94% of *gmina* resources date back to over 30 years ago.

The geographic location of municipal housing resources in Poland is determined by the degree of urbanization in the various regions, as well as by historical factors. The voivodships, with the highest share of municipal apartments (19% and more) in urban

housing resources, are situated in the north-west and south-west. They comprise of Zachodniopomorskie, Pomorskie, Lubuskie, Dolnośląskie and Opolskie voivodships, where real estate was nationalized after World War II. A high number of municipal apartments (more than 100,000) can be found in highly urbanized voivodships, including Mazowieckie, Śląskie and Łódzkie. The total share of municipal apartments in urban areas of five voivodships does not exceed 10%, it reaches the level of 10%–20% in seven voivodships, and exceeds 20% in four voivodships (refer to the Figure A3.1 and Table A3.1 in Appendix I).

The majority of municipal apartments are situated in urban areas, but in seven voivodships more than 10% of municipal resources are utilized in rural areas. These are poorly urbanized regions in the eastern part of Poland (the Warmińsko–Mazurskie, Podlaskie, Lubelskie and Podkarpackie voivodships) as well as regions with well-developed farming sectors (the Kujawsko–Pomorskie, Wielkopolskie voivodships). The only exception is the Świętokrzyskie voivodship, which has the lowest number of municipal apartments, with 20% situated in urban areas.

2.2.2 Transfer of Company Flats to *Gminas*

In the past, companies had managed vast housing resources in Poland. In 1992, companies administered 1,480,000 apartments. Changes in the housing economy prompted companies to significantly reduce the volume of their housing resources by:

- Sale to sitting tenants;
- Transfer to *gmina* ownership;
- Transfer to housing cooperative ownership;
- Sale to private investors.

As a consequence of these changes, the number of company apartments fell to 542,000 in 2000. From the local governments' point of view, the process of this transfer was crucial. In the period between 1995–2000, *gminas* took over around 131,000 apartments once managed by companies.

Table 3.18

Transfer of Company Apartments into the Ownership of *Gminas* [Thousands]

Specification	1995	1996	1997	1998	1999	2000
Company apartments	1,083	911	822	683	617	542
Company apartments transferred to <i>gminas</i>	14.8	24.6	37.9	29.6	14.5	9.9

SOURCE: Central Statistical Office—Housing Economy 2000 and previous year.

The transfer gave rise a number of problems related to the following issues:

- Poor technical conditions and lack of economic profitability for the transferred resources;
- Incomplete documentation relating to the transferred resources;
- The fact that transferred resources were co-owned by individuals (former sitting tenants);
- The need to administer resources situated outside the operating area of the managing company;
- Problems relating to the establishment and provision of power and media, in many cases previously supplied by companies.

In practice, *gminas* and housing cooperatives absorbed the new resources relatively quickly. Problems relating to rental prices accompanied the transfer of company resources to the ownership of private owners. This issue continues to be the subject of many court disputes.

2.2.3 Municipal Housing Resources and Condominiums

The Act on Housing Ownership, put into effect in 1994, established condominiums in houses with at least two separate homeowners. This procedure was also applied to municipal resources in buildings where tenants had acquired ownership rights to their apartments.

A condominium comprises a group of owners whose apartments constitute the given real estate; it may maintain rights and obligations, it may sue and be sued. The share of an owner, of a separate apartment, to the common areas of building corresponds to the relationship between the apartment's usable area (including the area of its accompanying premises) and the total usable area of all apartments (including accompanying premises).

Under the provisions of the Act, the real estate management method applied is defined by the co-owners through a notaries' deed. If the method of real estate management has not been defined in this mode, the provisions of the Civil Code can be applied in condominiums comprising up to seven apartments: a condominium board (with one or more members) should be appointed in this case.

Condominium members are under the obligation to cover the costs of real estate management, which include:

- 1) Cost of overhaul and maintenance;
- 2) Charges related to power, heat, gas, and water works for the common area as well as collective charges, such as, TV satellites and elevators;
- 3) Insurance, taxes and other public and legal fees, unless covered directly by individual owners;

- 4) Cost of cleaning services;
- 5) Remuneration for board members or administrators.

As a member of a condominium, with ownership rights to some flats in a building, the *gmina* is under obligation to cover management costs proportionally to its apartments' share of the total floor area. The *gmina* pays management costs in advance and charges rent to those tenants using their apartments. The number of condominiums established with the participation of *gminas* and the number of apartments in buildings which are part of condominiums (apartments owned by the *gmina* and individuals) is presented in Table 3.19.

Table 3.19
Total Number of Apartments in Condominium Buildings
(Co-owned by *Gminas* and Individuals)

Specification	1995	1996	1997	1998	1999	2000
Total number of buildings	201,802	206,009	205,476	200,209	194,301	187,885
Number of condominium buildings	64,253	69,348	76,733	81,258	84,979	84,898
Share of condominiums with majority participation by individual home-owners [%]	13.9	17.9	21.9	27.0	31.9	36.4
Total number of apartments in condominium buildings [thousands]	1,161.1	1,232.1	1,304.8	1,341.0	1,369.9	1,337.8
• apartments owned by <i>gminas</i> [thousands]	858.7	873.1	878.1	855.9	828.3	779.8
• apartments owned by individual homeowners [thousands]	302.4	359.0	426.7	485.1	541.6	558.0

SOURCE: Central Statistical Office—Housing Economy 2000 and previous year.

Of the 187,000 buildings owned or co-owned by *gminas*, 45% are condominium buildings that should be managed in accordance with the Act on Housing Ownership. Individual owners hold the deciding vote, in regards to management issues, for more than a third of condominium buildings.

Change in ownership of *gmina* housing stock has had a great influence on the management of housing resources and maintenance finance. As it was stated above, in over one-third of the housing condominiums co-owned by *gminas* and individual homeowners, the majority vote belongs to the individual homeowners.

2.2.4 Management of Municipal Housing Resources

The period of political transformations in Poland also brought changes regarding the methods of managing municipal housing resources. The following changes were introduced:

- Transformation of resource managing entities (privatization, restructuring);
- Establishment of condominiums since 1994.

Prior to the establishment of condominiums, municipal housing resources were managed by *gmina* authorities (Housing Departments), state enterprises (operating as separate entities under the budgetary law) or separate municipal companies.

Box 3.2

Management of Housing Stock in Ostrów Wielkopolski

This gmina has adopted an interesting approach to the privatization of rental housing management. In 1994, the city established the City Unit of Housing Economy, a housing management company. The housing resources of the gmina were the city's initial contribution to the company and the company is both the owner and administrator of these resources. Ostrów plans to maintain gmina housing only for lower income households, while the gmina believes that the most appropriate housing solution for higher income households is to purchase, or build, a housing unit within the market, without city government assistance. Overall, this is an important step towards the rationalization of city budgets, increased use of households own resources, and, ultimately, toward privatization of some portion of the communal stock.

SOURCE: Local Government Rent Policy and Best Practice in Poland, report prepared for USAID (project 180-0034) by Sally R. Merrill and other—Urban Institute, Krakow Real Estate Institute, Housing Research Institute, 1998.

Following the establishment of condominiums, municipalities—or former entities managing resources on behalf of the municipalities—would call meetings for condominium members to appoint board members and to assign maintenance and administration tasks to hitherto managing entities, should the need arise. In view of *gmina* members' fear of getting involved in professional maintenance and administrative tasks, few condominiums have been able to address those issues independently so far.

The establishment of condominiums in buildings co-owned by the *gmina* and individuals necessitated the introduction of completely new real estate administration methods. A clear distinction should, however, be made between the definition of management in the legal sense (where the owner can transfer his rights to another entity under an agreement) and management itself, defined as the provision of real estate maintenance and administration services. The various forms of municipal resource

management and administration in Poland, including *gmina* resources in condominium buildings, are presented in Tables A3.12 and A3.13 in Appendix II. The *gmina* participation in administrative tasks has been significantly limited over the past few years. *Gminas* continue to administer around 170,000 apartment buildings.

Box 3.3

Restructuring Municipal Resource Management in Sopot

The town of Sopot has a population of 43,500. Until 1990, the commune's housing economy had been supervised by the Municipal Service Company (also responsible for upkeep and waste disposal). They employed 355 persons, including management (88), housing resource maintenance (126), an overhaul department (46), and waste disposal (95). In 1991, the department responsible for housing resource management became a separate entity, operating under the name of the Municipal Housing Resources Board (ZBM). Repair crews were privatized. ZBM managed 1,156 buildings with 6,958 flats and 431 utility premises. They employed a staff of 112 persons. The ZBM operated for three years, but failed to bring the desired results. The town authorities had to pay an extra PLN 3 for every PLN 1 of the rent. The share of city budget funds in the ZBM's budget continued to increase from 18% in 1993 to 25% in 1994 to 35% in 1995. The ZBM employees wages grew rapidly. In light of these facts, the City Council decided to shut down the ZBM and appoint private building administration selected for tenders in 1994. Three privately owned companies were created from the former ZBM structures, employing at least 50% of ZBM's former staff. The companies participated in the tender and were granted an order. The restructuring scheme improved the rent collection rate from 75% to 86% and modified the structure of housing maintenance expenses (repair expenses increased from 30% in 1995 to 46% in 1998 and salaries decreased from 14% in 1995 to 10% in 1998). Ownership supervision continued to be the domain of local authorities. The new management structure also brought the following results:

- *Less full-time employees*
- *Detailed agreement for housing management, administration and maintenance*
- *Administrator remunerated on the basis of economic efficiency (increase in the rent collection rates)*
- *Maintenance costs remained low (PLN 2.09 per m² (USD 0,51) before privatization, PLN 1.56 per m² (USD 0.38) after privatization)*
- *Repair expenditure increased and the technical condition of buildings and flats improved*
- *The private building administrator market in Sopot expanded*

SOURCE: Restructuring of Municipal Real Estate Management, M. Tértelis, Local Government Partnership Program / USAID, Municipium, Warsaw 2000.

The structure of managing *gmina* housing stock seems rather complicated due to the emergence of the condominiums, of which *gmina* is an owner of only a number of apartments in a block. The condominium takes over the management of the property in

a legal sense. However, the activities related to day-to-day maintenance (use, administration, upkeep, maintenance works and so on) are still performed by the municipality.

On the other hand, the gradual processes of privatizing a sector of the services related to the *gmina* stock management are taking place. This is the emergence of separate, self-financing companies with the stake held by the *gmina* or physical persons (for example, former employees), who receive orders to perform the operational activities.

Up to now, the managers of *gmina* housing stock were required to have a professional license to perform such activities. As a result of the training and certification process, private companies have been created and are run by physical persons, who manage the property. Yet in practice, such situations may occur in which one city's different legal and organizational forms of managing the *gmina* stock co-exist side by side. However, the dominant form is the budgetary agency (non-self financing and operating within the annual budget), as well as private companies with the *gmina* participation.

Box 3.4

Restructuring of Municipal Resource Management in Krakow

The city of Krakow has a population of 760,000. In 1996, municipal authorities administered 2,626 buildings with 46,589 flats and 3,501 utility premises. A large number of flats were situated in buildings co-owned by the commune and by individuals (condominiums). At the beginning of the 1990s, four State-owned housing companies were responsible for the management of the commune's housing resources. Total employment in those companies amounted to 1,993 persons including 603 office employees, 488 maintenance technicians, 718 janitors, 61 service workers and 123 other employees. In 1995, 17 commercial partnerships were created using the organizational structure of those companies and the experience of their employees. These became responsible for the maintenance of the housing resources and rendering of related services (repair, transport and construction). City authorities were released from the obligation to directly administer and to maintain municipal resources, as well as from the need to employ full-time workers, so they could focus on strategic planning. The efficiency of housing resource management was improved. For example, ADREM, one of the newly created companies which administered 24,919 flats, reported 8,300 m² of flat area per one administration employee, while the national average hit about 5,200 m². The average cost of resource maintenance was approximately 45% below the national average. This solution generated positive results for city authorities, including an annual savings of PLN 9 million (USD 2.2 million) in respect of personnel costs, lower maintenance costs, improved management of vacant flats, a decrease in rent arrears from 4.7% to 3%, and higher precision in expenditure planning.

Krakow's condominiums relegate 95% of resource management tasks to the third parties, such as the above mentioned companies, or private administrators. The city supports the repair of condominium buildings by granting loans from its own resources.

SOURCE: Restructuring of Municipal Real Estate Management, M. Tertelis, Local Government Partnership Program/USAID, Municipum, Warsaw 2000.

Table 3.20
Those Who Manage/Administer the *Gmina* Housing Stock
[% of Total Number of Municipalities in the Survey]

Size of <i>Gmina</i>	Administration by <i>Gmina</i> Itself	Administration by the Budgetary Agency	Administration by <i>Gmina</i> Company	Administration by Private Company
20,000–49,999	—	26	63	5
50,000–99,999	6	28	50	28
100,000–199,999	14	57	43	14
200,000 and more	—	58	58	17
Total	4	37	61	16

SOURCE: LGHS.

The technical conditions and standard of the municipal housing resources requires massive spending on overhaul and modernization. The number of modernized buildings and scale of overhaul works are presented in Tables 3.21 and 3.22.

While a total number of 50,609 municipal buildings capital and other overhauls have been completed in 2000, it should be mentioned that around 28% of municipal resources were overhauled, in varying degrees, in 2000. Overhaul works were conducted in a total of 50,490 buildings, including woodwork replacement in nearly 40% of overhauls, roof repairs in 25%, partial or total replacement of installations and roof repairs in 36%.

Table 3.21
Modernization of Municipal Buildings Owned or Co-owned by *Gminas*
and Managed by *Gminas* [Number of Buildings Equipped with New Installations]

Specification	1993	1996	1997	1998	1999	2000
Total number of buildings being modernized including:	4,724	3,198	3,365	2,924	2,967	2,396
• water supply modernization	2,214	1,056	1,004	916	699	634
• sewerage modernization	1,044	1,248	1,377	1,239	1,401	1,085
• central heating modernization	367	339	398	420	390	371
• gas supply modernization	874	295	498	287	423	270

SOURCE: Central Statistical Office—Housing Economy 2000 and previous year.

Table 3.22
Overhaul Works Completed in Municipal Buildings Owned or Co-owned
by *Gminas* and Managed by *Gminas* [Number of Buildings]

Specification	1993	1996	1997	1998	1999	2000
<i>Capital overhauls*</i>						
• buildings	1,016	376	273	156	108	119
• apartments	12,082	6,726	3,363	1,300	1,139	1,353
<i>Other overhauls</i>						
• buildings	22,702	27,610	44,308	45,862	49,651	50,490

* A capital overhaul is defined as an overhaul conducted to reinstate the real estate's initial technical and usable value; the table accounts for buildings where at least 60% of structural and installation elements have been replaced or thoroughly repaired.

SOURCE: Central Statistical Office—Housing Economy 2000 and previous year.

2.2.5 Local Government Housing Spending/Revenues, Rent Policy

The following Table 3.23 shows the total expenditures incurred by *gminas* on housing management and intangible *gmina* services.

Table 3.23
Local Government Housing Expenditures

	1994	1995	1996	1997	1998	1999	2000
Expenditures on housing management as well as intangible services [millions of PLN]	992.3	1,075.7	309.0	1,854.1	2,221.6	245.8	2,667.7
Growth indicator	100.0	108.4	131.9	168.8	223.9	247.7	268.8

SOURCE: State Office for Housing and Urban Development.

The following table shows the structure and division of local government housing expenditures (for different categories of size of *gmina*) according to analysis carried out by the Housing Research Institute within the framework of systematic monitoring.

Table 3.24
The Share of Housing Expenditures
in the Monitored Local Government Budgets in 1999 [%]

Size of <i>Gmina</i>	Management/ Maintenance Subsidies to Municipal Housing	Housing Allowances	New Municipal Housing Construction
Below 25,000	1.3	4.7	0.8
25,000–100,000	0.4	5.3	2.0
Over 100,000	0.8	2.0	0.6

SOURCE: J. Kornilowicz—Housing monitoring for year 1999.

The tendencies characterizing the unit costs of maintaining the *gmina* stock in the period between 1991–2000, estimated on the basis of yearly monitoring in the cities selected, are demonstrated in Table A3.2 in Appendix I. The data regarding the unit costs in housing cooperative stock were included for comparison. The conclusion may be drawn that there are lower dynamics in growth for unit costs related to the maintenance of *gmina* stock between the years 1991–2000. We then apply the very synthetic division of the total costs related to the maintenance of *gmina* housing stock (excluding central heating and hot water) into:

- Costs of day-to-day operation including administrative costs, water and sewage systems, waste disposal, keeping order, taxes and others;
- Costs related to the technical maintenance including repairs, maintenance, refurbishing and modernization.

The conclusion may be drawn that the highest growth in unit costs, for *gmina* housing stock, was observed in the group of costs related to day-to-day operation. This is the result of price hikes in *gmina* services (water works, sewage and waste disposal). The growth indicator of costs expressed in current prices for the years 2000/1991 is shown in Table 3.25.

In spite of the fact that the costs of central heating operation grew by 5.6 times, the final charges related to central heating born by the tenants grew by almost 16 times. This was the result of the rise of energy prices as well as withdrawal of the state subsidies toward central heating expenses. The most actual housing policy goal should now be focused on thermo-modernization activities (improvement in insulation).

The Housing Research Institute's systematic monitoring of housing activities, carried out by sampling research methods applied within the selected cities, allows for synthetic presentation of the sources covering the maintenance costs of *gmina* housing stock. The main sources are:

- Profit from business premises leases;

- Revenues from tenants (rent covers the administrative costs, cleaning, maintenance and repairs as well as charges for water consumption and sewage and waste disposal, lifts and joint aerials);
- *Gmina* subsidies as well as housing allowances financed partially from the state budget.

Table 3.25

The Dynamics of Growth in Municipal Unit Housing Costs

Costs	Growth Rate (1991 = 100)
Total maintenance costs (excluding: central heating and hot water)	848
Costs of day-to-day operation	952
Costs of technical maintenance	694
Costs of central heating	564

The data presented in Table A3.7 in Appendix I undoubtedly shows the radical transformation of the structure of resources serving to cover the costs of maintaining the stock. The share of charges incurred by tenants grew twofold (from 38% in 1991 to 79% in 2000) simultaneous to a considerable decrease (3.5 times) of budgetary subsidies (from *gmina* or state budgets).

Box 3.5

Rent Policy in Selected Polish Cities

Gdynia and Szczecin—Both of these gminas have aggressive rent policies. They are the only two gminas with average rents higher than two percent of the current replacement flat value. Gdynia and Szczecin have shown that it is possible to overcome the political and social opposition to rent increases by carefully involving all housing market stakeholders (council members, tenants, gmina management companies, and gmina officials) in discussing proposals for increasing rents toward market levels. Importantly, these gminas have also made rent increases part of comprehensive, long-term plans for the housing sector.

Gminas act under a wide variety of schemes and approaches to varying the structure of rents as also required under the 1994 Act. Most have not made any major changes, and have relied on various schemes. Krakow, in contrast, has initiated the process of establishing rent price variations through application of a market-based methodology (the so-called hedonic technique). For most large gminas that are adopting to a market-based rental structure, this technique could be very helpful with that portion of the stock that the gminas continue to own and/or for which they continue to set rent policies for.

SOURCE: Local Government Rent Policy and Best Practice in Poland, report prepared for USAID (project 180-0034) by Sally R. Merrill and other—Urban Institute, Krakow Real Estate Institute, Housing Research Institute, 1998.

Still, the most important source for covering maintenance costs for *gmina* stock is the revenues from the business premises. Therefore, the *gminas*' ability to initiate repair and regeneration projects on wider scale is determined, to a large extent, by the size of the business premise stock in their possession and, naturally, revenues from these premises.

The *gminas* in Poland are obliged by law to apply rent differentiation depending on the location of the building, the technical conditions, the level of installations coverage and the location of the apartment in the building. The principles applied by the *gminas* regarding rent setting allow for other detailed criteria, such as, insulation, exposure to traffic and so on.

For "social" dwellings the rental price shall not exceed half of the lowest rent price for usual *gmina* apartment and for the dwellings with areas exceeding 80 square meters, the *gminas* may apply market rents. Also, in relation to the new tenants, the *gminas* apply the free market rents.

It can be estimated that, in mid-2001, the share of municipal apartments with the regulated rent was 98.6%, ranging from 97.9% for the biggest and smallest cities' group to 99.5% in the group of cities with the population from 50 to 99 thousand and those with a population from 100–199 thousand inhabitants. The average share of dwellings, where free market rents were applied, on total municipal housing stock (in those cities participating in the LGHS) was 1.4%.

In the majority of cities (71%) under the LGHS, rents had not covered all the maintenance costs (excluding the costs of modernization and reconstruction). However, the situation differed depending on the size of the city. The smaller the size of the city, the higher the level of costs covered by the rent.

Table 3.26

Does Income from Rent Cover the Maintenance Costs of Municipal Housing?
[% of the total municipalities]

Size of <i>Gmina</i>	Rents Cover Maintenance Costs	Rents Do Not Cover Maintenance Costs
20,000–49,999	32	68
50,000–99,999	28	72
100,000–199,999	14	86
200,000 and more	8	92
Weighted average	23	77

SOURCE: LGHS.

In 1991, the rent in municipal housing accounted for PLN 0.16/m²/month. Whereas in 2000, the average rent was equal to PLN 2.82/m²/month. Taking into account other charges resulting from the tenants use of the *gmina* dwelling, it may be concluded that the housing expenditures (excluding the central heating and hot water) grew eighteen times between 1991–2000 (as expressed in current prices). Whereas, in real prices, the housing expenditures increased about three times (see Table A3.6 in Appendix I).

Table 3.27
Average Monthly Housing Expenses Expressed in PLN per Person (2000)

Expenses	Households of Blue-collar Employees	Households of White-collar Employees
<i>1. Households in total</i>		
The total housing expenses, including:	91.03	142.89
• rent	20.12	32.43
• cold water charges	8.17	11.22
• total energy charges	47.04	67.75
within:		
• electrical energy and gas	24.23	31.44
• central heating and hot water	17.66	31.22
• fuel	5.15	5.09
Share of the total housing expenses within the household budget [%]	18.3	16.5
<i>2. In one-person households</i>		
The total housing expenses, including:	222.54	378.47
• rent	69.37	130.23
Share of total housing expenses in household budget [%]	20.9	21.4

NOTE: Exchange rate USD 1 = PLN 4.35.

SOURCE: Central Statistical Office—Statistical Yearbook 2001.

According to the results of a household budget survey in 2000, the average monthly expenses per person, related to the use of a dwelling and energy consumption, amounted to a total of PLN 107.21 per person/month (USD 24.6), including:

- Rent—PLN 19.49 (USD 4.48);
- Cold water charges—PLN 8.17 (USD 1.88);

- Total energy charges—PLN 58.19 (USD 13.37)
including: Electrical energy and gas—PLN 29.14
Central heating and hot water—PLN 17.40
Fuel—PLN 11.66.

2.2.6 Housing Allowances

Table 3.28 shows the average housing allowances according to the research conducted by the Housing Research Institute in the cities with various population sizes (representing jointly 10% of the municipal stock in Poland).

Table 3.28
The Average Value of Housing Allowance
[PLN per Month]

Cities	Average Amount of Allowance		Growth Indicator 1999 = 100
	1999	2000	
Over 25,000 inhabitants	109	121	111
25,000–100,000 inhabitants	123	120	98
Over 100,000 inhabitants	131	152	116
Total	127	140	110

Note: Exchange rates 1999: USD 1 = PLN 3.97; 2000: USD 1 = PLN 4.35.

SOURCE: J. Kornilowicz—collective study project relating to housing monitoring between the years 1990–2000.

The largest housing allowances were paid out in big cities. This results from the higher rents charged in such cities. The share of the housing allowances paid, in comparison to the total number of dwellings, has grown from 6.0% to 7.6% in 1999. In 2000, about 18% of households living in *gminas* housing stock received a housing allowance. The payment of allowance also depends on the size of the city, for instance:

- In cities with less than 25,000 inhabitants, 28% of households living in *gmina* housing receive an allowance;
- In the cities with 25,000–100,000 inhabitants, 34.8% of households living in *gmina* housing receive an allowance;
- In the cities with more than 100,000 inhabitants, 14.1% of households living in *gmina* housing receive an allowance.

2.2.7 Vacancies, Rent and Utility Charges' Arrears, Evictions

The share of uninhabited *gmina* flats was between 0.9% to 1.3% of total *gmina* housing stock during the period from 1990 to 2000. This low number results from a general housing deficit in Poland. However, this situation makes proper management of the stock impossible (in particular, during the emergency situations, such as, floods, collapses of buildings, fires, and so on). The average number of voids according to the LGHS was, as follows:

Table 3.29
The Average Number of Voids in the Cities Surveyed⁵

The size of <i>Gmina</i>	The Average Number of Voids
20,000–49,999	0.4
50,000–99,999	1.1
100,000–199,999	26.3
200,000 and more	71.9
Weighted average	19.2

SOURCE: LGHS.

By comparing the average number of voids within the cities surveyed to the average adjusted number of *gmina* dwellings, we determine a share of voids on the level of 0.3% of the total *gmina* housing stock. Therefore, the average rent loss through voids represented only 0.13% of the total annual rent roll in 2000; whereas, the lowest level was present in the group of cities with populations ranging from 50 to 99 thousand (0.02%), and the highest level was in the group of cities with the population ranging from 100 to 199 thousand inhabitants (0.46%).

The number of tenants with some kind of charge arrears is exhibited in Table 3.30.

The share of tenants with charge arrears amounted to:

- 34% for cooperative housing stock;
- 35% for *gmina* owned or managed stock;
- 21% for stock belonging to the State (companies);
- 26% for stock belonging to condominiums.

The number of tenants with charge arrears in dwellings owned by *gminas* in 2000 amounted to 551.2 thousand. Around one-third of the total number of arrears were long-term (three months or more).

Table 3.30
The Number of Tenants in Arrears with Rent and/or Charges Resulting
from the Use of a Dwelling [Thousands]

Tenure	1997	1998	1999	2000
Housing cooperatives	1,170	1,118	1,126	1,165
Housing owned or managed by <i>gminas</i>	714	733	688	682
State (company) housing	194	144	142	140
Condominium home-ownership	27	47	90	174

SOURCE: Central Statistical Office—Housing Economy 2000 and previous year.

Table 3.31
The Total Share of Tenants with Some Kind of Arrear in *Gmina* Housing
[% from Total Number of Municipal Dwellings]

	1997	1998	1999	2000
The total share of tenants with arrears	37.7	38.9	38.3	40.2
Including: over three-month arrears	14.6	15.2	15.6	16.7

SOURCE: Central Statistical Office—Housing Economy 2000 and previous year.

According to the LGHS, the average rent loss through rent arrears accounted for 11.6% of the gross rent roll in 2000 (for cities with populations higher than 20,000 inhabitants). However, it varies from city to city.

About 90% of the cases concerning evictions heard in court were dealt with the charge arrears for dwelling use. Regulations regarding evictions have been subject to quite frequent amendment and the tangible results of drawn-out eviction proceedings were fairly modest. This is illustrated by the data in Table 3.33.

In order to improve the efficiency of rent collection and collection of charges for central heating or hot water consumption, the managers of the *gmina* housing stock in all LGHS cities apply standard methods. These include:

- Reminders, demand for payment, direct enforcement in the tenant's apartment;
- Spreading the overdue rent payment over time and allowing repayment by installments as well as the redemption of the interest;
- Improving apartments in return for the repayment of rent arrears;
- Housing allowances;
- Court orders, enforcement by the debt collector, evictions;
- Re-location to a flat of a lower standard.

Table 3.32
Rent Arrears in the Cities Surveyed [% of Gross Rent Roll]

Size of <i>Gmina</i>	The Arrears in 2000 [%]*	The Arrears Anticipated in the Year 2001 [%]
20,000–49,999	9.3	10.3
50,000–99,999	13.3	14.0
100,000–199,999	13.6	15.8
200,000 and more	15.1	16.6
Weighted average	11.6	—

* Including arrears from previous years.

SOURCE: LGHS.

Table 3.33
The Eviction Activities Against the Tenants in Dwellings
Owned or Under the Management of *Gminas*

	1997	1998	1999	2000
The number of pending court proceedings	13,727	15,724	16,386	15,389
The number of eviction verdicts given by the court	6,205	6,841	7,672	6,932
The number of enforced evictions	1,642	2,397	3,076	3,364
of these: those resulting from the charge arrears	1,476	2,162	2,746	3,109

SOURCE: Central Statistical Office—Housing Economy 2000 and previous year.

In order to better utilize the uninhabited buildings, some *gminas* offer potential tenants the option to refurbish the flat at their expense. Their rent is then adequately adjusted in accordance with cost of refurbishment. However, in practice, the overall problem of uninhabited buildings is marginal and generally neglected.

2.2.8 Allocation of Municipal Housing

An extremely long waiting period for allocation of a *gmina* flat, which could be as long as six or even more years within big cities, is also a reflection of stock turnover. Due to the shortage of the new *gmina* flats, only 2% of the stock is rented out annually. In principle, the *gminas* do not have any preferences for newly wed couples with children,

even though a family situation is one of the many criteria used in making selection of a new tenant. The basic criterion is the number of inhabitants per square meter of their current dwelling and, sometimes, substandard living conditions or the unstable, and dangerous, structure of the building.

Table 3.34
Allocations of Dwellings Belonging to *Gmina* Stock (2000)

Size of <i>Gmina</i>	The Average Waiting Period in Months*	The Number of Annual Re-lets** (2000)
20,000–49,999	57	2.0
50,000–99,999	55	2.1
100,000–199,999	52	3.4
200,000 and more	69	1.7
Weighted average	58	2.2

* For a household including two adults and one child (just born) where only one adult person earns the average national salary.

** In % from total *gmina* having stock.

SOURCE: LGHS.

Table 3.35
The Structure of the Newly Concluded Tenancy Agreements [%]

Size of <i>Gmina</i>	"Social" Dwellings	Other
20,000–49,999	34.8	64.9
50,000–99,999	18.9	71.3
100,000–199,999	18.3	74.0
200,000 and more	34.8	64.8
Weighted average	25.4	69.9

SOURCE: LGHS.

For the majority, representing 93% of the cities surveyed, a waiting list was in place. However, as little as 23% of the cities applied a clearly defined scoring system for the evaluation of housing needs and, in the big cities, this share was even lower, amounting to 16%.

Almost 60% of the cities, with the biggest cities occupying a dominant position of 83%, declared that they apply the differentiated policy of flat allocation which takes into

account various groups of tenants. However, the given examples for such differentiation, are the allocation of flats for persons brought up in the orphanages and persons released from prison (as prescribed by law).

The *gminas* also maintain a small margin of dwellings as reserve, in preparation for unexpected social needs (emergency situations). Within the group of allocated *gmina* flats (or to be more correct within the framework of the tenancy agreements), a considerable share goes to “social” dwellings (25%).

3. CONCLUSIONS AND RECOMMENDATIONS

- 1) The changes observed in Polish housing policy, during the period of economic transition between 1990–2000, had the following results:
 - The state direct involvement in financing housing construction and housing economy became significantly limited;
 - Local governments began to play a vital role in the housing sector;
 - The importance of economic efficiency in housing and housing resource management increased.

The state housing policy created grounds for new institutions (the National Housing Fund, the Housing Savings Banks, the Social Housing Associations) and new tools aimed at supporting housing development. These included rent prices regulated at the local level, housing allowances, preferential housing loans and tax relief within the income tax system.

- 2) In view of the above changes, local governments became responsible for catering to local community housing needs via the application of tools and measures introduced by the national and local housing policies. Such initiatives were launched in respect to the local rent policy, aiming at rational management of municipal housing resources, local governments’ active involvement in the development of social housing projects addressed to low-income households, creation of favorable grounds for housing developers through the application of suitable land policies and indirect land development opportunities.
- 3) The effectiveness of housing resource management was improved by privatizing the *gminas*’ (municipality) resources, having been administered by local governments since 1990.
- 4) In order to meet the housing demands of the local community, including social aspects, local governments were placed under the obligation to subsidize housing

costs and pay housing allowances in accordance with statutory provisions. Local authorities also became responsible for providing council housing to tenants from the lowest income bracket as well as to the homeless (“social” housing).

- 5) Local governments did not receive any direct, or indirect, financial support from the central budget at the required level to solve the housing problems. In particular, these included the related obligation to create satisfactory groundwork for the development of housing and the local governments’ direct involvement in various programs (housing subsidies, the Social Housing Associations, council housing, development of municipal infrastructure). As a result, many programs were implemented inefficiently and some were even suspended (such as repairs and upgrade support programs for housing resources or the case that concerned the establishment of the Busparkasse type housing banks).
- 6) Due to ineffective methods of municipal housing resource management in the past, the process of privatizing municipal resources and creating condominiums was obstructed by financial problems related to the upkeep and upgrading of community resources. The solutions introduced frequently prevented condominiums from raising the required funds to repair and upgrade their resources by taking out bank loans on satisfactory terms or acquiring the financial support of local authorities. Thus, the anticipated improvement in housing resource management can not be observed in practice.
- 7) According to the results of research and polls conducted in connection with this project over the past few years, Polish municipalities began to focus on developing own housing policies and strategies. This enable them to correctly identify the hierarchy of housing needs and formulate the objectives, methods and tools required to meet those goals. The above stated particularly applies to medium-size and large cities, 40-50% of which have developed such strategies and programs. Nevertheless, there are very few comprehensive programs and the shortage of suitable tools and procedures obstructs their implementation. This insufficiency results from the persistent lack of awareness of the need for system action, the commune’s inability to develop such programs, and the shortage of funds. Another major obstacle is the lack of stability in the development and implementation process of state housing policy. It should also be noted that local authorities with a high share of municipal resources are more actively involved in the creation and implementation of local housing strategies.
- 8) The changes observed in the Polish economy between 1996 and 1998 brought relatively high economic growth. This, however, was not accompanied by an adequate

support for public funding, including state funding, for housing programs. The crisis, which surfaced in 2001, including a deficit in the public finance sector, has led to the suspension of several new housing programs. The future of numerous programs continues to remain uncertain. The former applies to the “own apartment” program, new housing saving scheme as well as programs on upgrading of the existing housing resources. The latter concerns the development of social housing, housing subsidies, development of municipal infrastructure and meeting the housing needs of tenants from the lowest income group.

- 9) The present situation poses a new challenge for local governments that now face the need to develop and implement effective housing policies and also need to initiate new measures to establish partner relationships within the local community.
- 10) The state authorities should be responsible for verifying and defining the hierarchy of the formerly developed housing programs. They should also provide the required financial support for these programs from the central budget or other state-aided sources as well as providing local governments with new options for generating such resources (such as privatization programs).

Following are the main recommendations for both the national and local housing policies:

1) *National Housing Policy*

The income structure of the Polish society, where a definite majority are low- and medium income households, doesn't seem to be a favourable phenomenon to solve the present housing deficit by solely market forces. Hence, apart from activities aimed at stimulation of demand from the households that can aspire to own their dwelling, one should promote the development of the rental housing, which is the only way of meeting the housing needs of most society at present.

One solution should be the continuation of the programme of social housing construction realized by the Social Housing Associations (TBS). Besides that, housing cooperatives, prepared to investment activities and exploitation of housing stock, should have wider access to the funds of the National Housing Fund for construction of rental flats. The rules and regulations for allocation of funds should consider the experiences and effectiveness of entities applying for preferential credits; the housing cooperatives may be such entities.

High deficit in “social” housing for the poorest groups of population should force the State to increase support for construction and financing of new “social” housing.

Extending access to housing allowances is necessary now. With simultaneous growth in rental prices, it should create appropriate conditions for active rent policy, favourable for revitalisation of communal and private housing stock.

A number of reasons (legal, organizational, and financial) contribute to the bad condition in the field of housing stock maintenance. It concerns especially *gminas* housing stock. The long time of postponement in renovation works resulted in general overhauls which are costly for tenants. They can only be carried out if special funds are allocated for this purpose. Significant support from the state budget is necessary in that situation. Support should be both of direct and indirect types: direct support in a form of interest subsidies and indirect in a form of tax relief.

The high level of deficit in the field of communal infrastructure has negative impact on the living condition of the population and constitutes one of the basic barriers to housing construction as well as to rehabilitation and modernization of existing housing stock. The level of local government investments does not correspond to the demand in this respect. The most of cost of investment projects are mainly financed by *gminas* own funds. To move that barrier the financial support, at attractive conditions, should be applied within the framework of the state housing policy.

The crucial element in realisation of housing policy at the local level is the stability, at least in the medium-term, of state housing policy.

2) *Local Housing Policy*

The actions of communes within the scope of housing should be based on strategic plans, whose objectives should be approved by the Local Councils. A good opportunity may be a duty of preparation of long-term strategy on housing stock management, imposed on communes in 2002.

Privatization of communal housing stock should be realised in a well-thought out and selective manner, enabling the communes to realize their assignments within the scope of satisfying housing needs of local society.

When restructuring the management of communal housing stock, the market rules and competition should be taken into account. According to certain opinions, the commune should not participate in management of real properties forming the condominiums.

The current budget enterprises, managing the commune-owned housing, are not effective and competent entities because they are dependent and restricted by the regulations of the Budgetary Act. In addition to this, they are not a subject to competition pressure, hence, it may be advisable to convert them into independent economic entities. Based on existing experience, the creation of multilevel managing structures is not advisable.

The information received from the Polish local authorities indicate that waiting lists and explicit systems of living standard evaluation are applied only partially and that, in principle, no real preferences for the group of needy population (young married couples with children, disabled persons, elderly, etc.) are determined. When housing strategy and plan of housing stock management is prepared, it is necessary to take into consideration legible and socially acceptable clarification of the rules and regulations determining the access to municipal flats at moderate rents.

The communes should search for new solutions in the field of “social” housing, aimed at increasing the number of “social” flats (by extension of buildings, loft adaptation, redemption of flats for debts, etc.). It should be remembered, however, that creation of “social” housing stock should not lead to the creation of so called social ghettos.

3) *Revitalisation of Urban Areas*

Low standard of municipal housing stock requires acceleration of the pending works on the Act pertaining to housing stock revitalisation (setting legal conditions for public–private partnership in this field).

The problem of revitalisation of urban areas, including communal housing stock, requires both legislative activity of the State and practical activity of the communes. Communes should be inspired by the best practices of some Polish cities within this scope and the experience coming from countries of the European Union. This concerns mainly planning and financial strategy of such undertakings.

In connection with expected accession of Poland to the European Union, it is important to identify, adopt, and use the experience of the European Union countries within the scope of urban planning, housing finance, housing stock management and revitalisation of housing resources. Local government should be prepared to take advantage of the European Union funds in this area of activity.

ENDNOTES

- 1 This period can be divided into two phases (1989–1993)—firstly, in which principal system changes were made, secondly, a phase (1994–1997) already concentrated on the investment process in construction, managing of the existing housing stock and creation condition for its development.
- 2 New regulations introduced in 2001 (Act on the Tenants Rights and the Municipal Housing Stock) changed the principles of the increase of rental levels—the term “regulated rent” is actually not used, but the tempo of the rent level increases are regulated.
- 3 Revenues and expenditures of the *gminas*’ budgets (only urban area) in Poland in 2000 were the following:
 - a) *revenues*—own revenues 48%, appropriated allocations (from the state budget and funds) 20%, general subsidies from the state budget (31%, mainly for educational tasks).
 - in own revenues: share in the income tax (personal and income tax)—36% of own revenues, real estate tax (23% of own revenue), revenue from property and services (19% of own revenues), agricultural tax and tax on means of transport and treasury fee (22%).
 - b) *expenditures*—municipal transport (8.7%), municipal economy (13%), education (38%), housing economy and intangible municipal services (5.3%), social welfare (11%).
- 4 The level of correctness of the questionnaires returned, differed. The respondents raised doubts about the way goals were prioritised and the statistical data, regarding the city’s whole housing stock, seemed patchy. Therefore, the share of *gmina* stock was overestimated. In the cases which raised doubts, the data was corrected.
- 5 The percentage of uninhabited dwellings does not exceed 1.2% of total *gmina*’s stock.

APPENDIX I

Table A3.1
Geographic Location of Municipal Housing in Poland in 2000

Voivodship	Total Number of Flats in Urban Areas in 2000	Total Number of Municipal Flats	Number of Municipal Flats in Urban Areas	Share of Municipal Flats in Urban Areas within the Total Number of Flats in Urban Areas [%]	Share of Municipal Flats in Rural Areas within the Total Number of Municipal Flats [%]	Total Number of Council Flats in 2000	Share of Council Flats within Total Number of Municipal Apartments [%]
Dolnośląskie	702.3	226.5	208.1	29.6	8.1	3.5	1.5
Zachodniopomorskie	380.9	93.8	88.1	23.1	6.1	1.3	1.4
Lubuskie	210.1	49.9	46.3	22.0	7.2	1.0	2.0
Opolskie	184.0	43.0	38.9	21.1	9.5	0.9	2.1
Pomorskie	480.1	96.2	91.2	19.0	5.2	1.3	1.4
Łódzkie	643.4	127.0	121.5	18.9	4.3	3.7	2.9
Śląskie	1,319.6	231.7	226.3	17.1	2.3	4.4	1.9
Warmińsko–Mazurskie	269.5	48.8	41.8	15.5	14.3	1.4	2.9
Mazowieckie	1,177.4	178.3	170.1	14.4	4.6	3.9	2.2
Kujawsko–Pomorskie	429.2	67.1	59.4	13.8	11.5	1.4	2.1
Wołkopskie	613.9	78.8	68.1	11.1	13.6	1.1	1.4
Małopolskie	527.4	56.7	53.6	10.2	5.5	0.8	1.4
Podlaskie	232.7	21.9	19.6	8.4	10.5	0.3	1.4
Podkarpackie	257.5	20.5	18.2	7.1	11.2	0.9	4.4
Lubelskie	328.3	20.9	17.5	5.3	16.3	1.1	5.3
Świętokrzyskie	196.9	9.8	7.7	3.9	21.4	2.6	26.5

SOURCE: Central Statistical Office—Housing Economy 2000.

Figure A3.1
Geographic Location of Municipal Housing in Urban Areas
within Poland during 2000

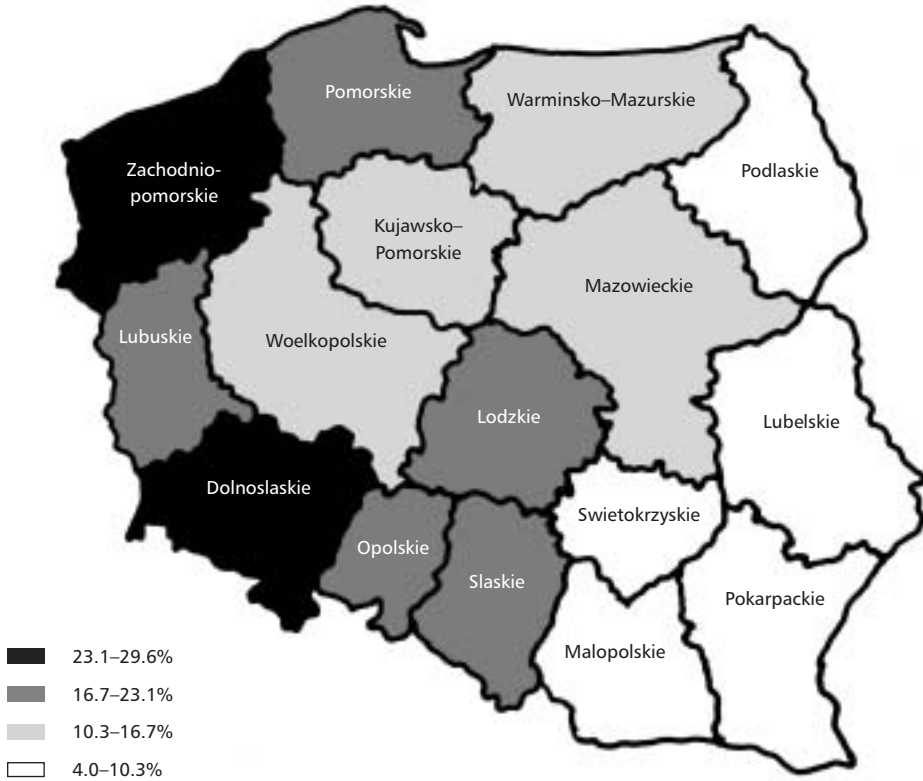


Table A3.2
Total Unit Costs in Relation to *Gminas'* Housing Stock Maintenance,
as Expressed in PLN/m²/month

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Costs in PLN/m ² /month	0.42	0.69	0.82	1.03	1.53	1.77	2.27	2.84	3.29	3.56
The cost growth indicator (1991 = 100) in current prices	100	164	195	245	364	421	540	676	783	848
Inflation indicator (1991 = 100)	100	143	193	256	327	392	450	503	540	595
Costs in PLN/m ² /month, base prices in 1991	0.42	0.48	0.42	0.40	0.47	0.45	0.50	0.56	0.61	0.60
The costs growth indicator (1991=100) in base prices	100	114	100	96	111	107	120	134	145	142

NOTE: Exchange rates 1 USD to PLN, in the years 1991–2000: 1991—1.095; 1992—1.565; 1993—1.815; 1994—2.273; 1995—2.424; 1996—2.697; 1997—3.281; 1998—3.493; 1999—3.968; 2000—4.346. For the years between 1991–1992, the exchange rate is taken from 31st December for the coming years' annual average exchange rate.

SOURCE: J. Kornilowicz—collective study work regarding housing monitoring, 1990–2000.

Table A3.3
Total Unit Costs of Maintaining the Cooperative Housing Stock,
as Expressed in PLN/m²/month (Exclusive of Central Heating and Hot Water)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Costs in PLN per m ²	0.37	0.59	0.69	0.97	1.20	1.61	1.97	2.59	3.09	3.69
Cost growth indicator (1991 = 100) in current prices	100	159	186	262	325	436	532	700	835	997

Note: Exchange rates 1 USD to PLN, between 1991–2000: 1991—1.095; 1992—1.565; 1993—1.815; 1994—2.273; 1995—2.424; 1996—2.697; 1997—3.281; 1998—3.493; 1999—3.968; 2000—4.346. For the years between 1991–1992, the exchange rate is taken from 31st December for the coming years' annual average exchange rate.

Source: J. Kornilowicz—collective study work regarding housing monitoring, 1990–2000.

Table A3.4

Unit Costs for Day-to-day Operation, as well as *Gminas'* Housing Stock Technical Maintenance, in PLN/m²/month (Exclusive of Central Heating and Hot Water)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Day to day operational costs [PLN/m ² /month]	0.25	0.43	0.53	0.69	1.04	1.21	1.49	1.72	2.17	2.38
The cost growth indicator (1991=100) in current prices	100	172	212	275	415	481	596	716	868	952
Inflation indicator (1991=100)	100	143	193	256	327	392	450	503	540	595
Technical maintenance costs [PLN/m ² /month] in current price	0,17	0.26	0.29	0.34	0.49	0.56	0.78	1.05	1.12	1.18
The costs growth indicator (1991=100) in current prices	100	153	171	200	289	329	459	648	659	694

NOTE: Exchange rates 1 USD to PLN, in the years 1991–2000: 1991—1.095; 1992—1.565; 1993—1.815; 1994—2.273; 1995—2.424; 1996—2.697; 1997—3.281; 1998—3.493; 1999—3.968; 2000—4.346. For the years between 1991–1992, the exchange rate is taken from 31st December for the coming years' annual average exchange rate.

SOURCE: J. Kornilowicz—collective study work regarding housing monitoring, 1990–2000.

Table A3.5

Unit Costs and Charges for Central Heating and the Amount Covered by *Gmina* Housing Stock Tenants

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	1991 = 100
Costs of central heating expressed [PLN/m ² /month]	0.48	0.73	0.90	1.12	1.60	1.85	2.25	2.56	2.68	2.71	564
Charges for hot water expressed [PLN/m ² /month]	0.17	0.46	0.70	1.05	1.54	1.74	2.16	2.43	2.68	2.71	1,594
Amount covered by tenants' charges [%]	35	63	78	94	96	94	96	95	100	100	—

NOTE: Exchange rates 1 USD to PLN for the years between 1991–2000: 1991—1.095; 1992—1.565; 1993—1.815; 1994—2.273; 1995—2.424; 1996—2.697; 1997—3.281; 1998—3.493; 1999—3.968; 2000—4.346. For the years between 1991–1992, the exchange rate is taken from 31st December for the coming years' annual average exchange rate.

SOURCE: J. Kornilowicz—collective study work regarding housing monitoring, 1990–2000.

Table A3.6
 Unit Revenues from Dwellings Belonging to *Gmina* Housing Stock,
 as Expressed in PLN/m²/month
 (Excluding Costs of Central Heating and Hot Water)

	1991	1992	1993	1994	1995
Revenues expressed [PLN/m ² /month]	0.16	0.27	0.3	0.33	0.98
Revenue growth indicator (1991 = 100) in current prices	100	169	188	206	613
Inflation index (1991=100)	100	143	193	256	327
Revenues expressed [PLN/m ² /month], base prices for 1991	0.160	0.189	0.155	0.129	0.300
The revenues growth indicator (1991 = 100) in base prices	100	118	97	81	187
Gross average monthly salary published as for the national economy expressed [PLN]	—	293.5	399.5	532.8	702.6

	1996	1997	1998	1999	2000
Revenues expressed [PLN/m ² /month]	1.21	1.59	2.02	2.46	2.82
Revenue growth indicator (1991 = 100) in current prices	756	994	1,263	1,538	1,763
Inflation index (1991=100)	392	450	503	540	595
Revenues expressed [PLN/m ² /month], base prices for 1991	0.309	0.353	0.401	0.455	0.474
The revenues growth indicator (1991 = 100) in base prices	193	221	251	285	296
Gross average monthly salary published as for the national economy expressed [PLN]	873.0	1,061.9	1,239.4	1,706.7	1,923.8

NOTE: Exchange rates 1 USD to PLN for the years between 1991–2000: 1991—1.095; 1992—1.565; 1993—1.815; 1994—2.273; 1995—2.424; 1996—2.697; 1997—3.281; 1998—3.493; 1999—3.968; 2000—4.346. For the years between 1991-1992, the exchange rate is taken from 31st December for the coming years' annual average exchange rate.

SOURCE: J. Kornilowicz—collective study work regarding housing monitoring, 1990–2000.

Table A3.7
Structure of Resources Covering the Total Dwelling Maintenance Costs
for *Gminas*' Stock [%]

The share of the cost coverage	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Revenues from dwellings (exclusive of central heating and hot water)	38	39	37	32	64	68	70	71	75	79
Surplus of revenues from business premises	33	32	29	24	20	20	17	14	12	13
Subsidies from communes and housing allowances	29	29	34	44	16	12	13	15	13	8

SOURCE: J. Kornitowicz—collective study work regarding the housing monitoring for years 1990–2000.

Table A3.8
General Indicators

	1990	1991	1992	1993	1994	1995
The rate of inflation [%] (previous year = 100)	685.8	170.3	143.0	135.3	132.2	127.8
Average costs [PLN/m ² of new constructed dwelling] in the third quarter of the year	160	354	530	730	810	920
Index on average cost [PLN/m ² of new constructed dwelling] (previous year=100)	682.0	221.3	149.7	137.7	111.0	113.6
The number of m ² of dwelling/average salary	0.64	0.50	0.55	0.55	0.66	0.76

	1996	1997	1998	1999	2000
The rate of inflation [%] (previous year = 100)	119.9	114.9	111.8	107.3	110.1
Average costs [PLN/m ² of new constructed dwelling] in the third quarter of the year	1,170	1,450	1,900	2,200	2,300
Index on average cost [PLN/m ² of new constructed dwelling] (previous year=100)	127.2	123.9	131.0	115.8	104.5
The number of m ² of dwelling/average salary	0.75	0.73	0.65	0.78	0.84

NOTE: Exchange rates 1 USD to PLN, between the years 1991–2000: 1991—0.095; 1992—1.565; 1993—1.815; 1994—2.273; 1995—2.424; 1996—2.697; 1997—3.281; 1998—3.493; 1999—3.968; 2000—4.346. For the years between 1991–1992, the exchange rate is taken from 31st December for the coming years' annual average exchange rate.

SOURCE: Central Statistical Office—Statistical Yearbook 2001 and previous years.

APPENDIX II

Table A3.9
Housing Construction during 1991–2000

Items	1991	1992	1993	1994	1995
Dwellings completed in thousands, within [%] by	136.8	133.0	94.4	76.1	67.1
• cooperatives	61.1	63.4	52.9	41.7	40.0
• gminas (municipal)	1.9	2.7	4.9	4.7	4.9
• companies	7.8	6.2	6.3	5.0	3.7
• rental or for sale	—	—	0.5	1.9	4.2
• social housing associations	—	—	—	—	—
• private individuals	29.2	27.7	35.4	46.7	47.2
Dwellings completed per					
• 1,000 population	3.6	3.5	2.5	2.0	1.7
• 1,000 marriages contracted	587	612	455	366	324
Average usable floor space/dwelling completed [m ²]	75.0	75.0	81.1	88.5	89.6
Dwellings in thousands					
• started	105.8	—	—	—	90.6
• under construction	464.9	—	—	—	537.7

Items	1996	1997	1998	1999	2000
Dwellings completed in thousands, within [%] by	62.1	73.7	80.6	82.0	87.7
• cooperatives	39.6	38.1	34.8	33.5	24.4
• gminas (municipal)	4.8	5.0	4.2	3.3	2.0
• companies	2.6	1.9	1.7	1.2	1.2
• rental or for sale	4.3	6.9	11.2	17.3	20.7
• social housing associations	0.2	0.4	1.7	4.1	4.4
• private individuals	48.5	47.7	46.4	40.6	39.7
Dwellings completed per					
• 1,000 population	1.6	1.9	2.1	2.1	2.3
• 1,000 marriages contracted	305	360	385	374	416
Average usable floor space/dwelling completed [m ²]	92.1	93.3	93.4	87.8	89.7
Dwellings in thousands					
• started	98.6	97.8	93.9	135.6	125.8
• under construction	576.6	602.9	618.8	672.3	710.5

SOURCE: On the basis of the Statistical Yearbook of the Republic of Poland 2001 and previous years—Central Statistical Office.

Table A3.10
 State Budget Expenditures for Housing Purposes
 —Level, Structure, and Its Relationships

Items	1991	1992	1993	1994	1995
Total housing spending					
• [million PLN]	1,227	2,350	1,923	2,760	2,817
• [%] (previous year = 100)	100.0	191.5	81.8	143.5	102.1
Share in total spending					
• spending created for new housing demand	17.0	22.0	23.0	25.0	6.0
• other spending	83.0	78.0	77.0	75.0	74.0
Relations of housing spending to [%]					
• state budget expenditure	5.1	6.1	3.8	4.0	3.1
• gross domestic product	1.5	2.0	1.2	1.3	1.0

Items	1996	1997	1998	1999	2000
Total housing spending					
• [million PLN]	3,398	3,392	3,297	3,103	2,590
• [%] (previous year = 100)	120.6	99.8	97.2	94.1	83.5
Share in total spending					
• spending created for new housing demand	29.0	35.0	36.0	36.0	48.0
• other spending	71.0	65.0	64.0	664.0	52.0
Relations of housing spending to [%]					
• state budget expenditure	3.1	2.7	2.4	1.5	1.7
• gross domestic product	0.9	0.8	0.6	0.3	0.4

NOTE: Exchange rates 1 USD to PLN, between the years 1991–2000: 1991—1.095; 1992—1.565; 1993—1.815; 1994—2.273; 1995—2.424; 1996—2.697; 1997—3.281; 1998—3.493; 1999—3.968; 2000—4.346 For the years between 1991–1992, the exchange rate is taken from 31st December for the coming years' annual average exchange rate.

SOURCE: On the basis of State Office for Housing and Urban Development.

Table A3.11
Housing Allowances Paid to Tenants and Subsidies from the State Budget

	1995	1996	1997	1998	1999	2000
Number of paid allowances [thousands]	6,652.3	7,576.4	7,786.3	8,640.1	8,747.8	9,086.9
Total spending on housing allowances [million PLN]	410.9	512.2	646	914.2	1,044.4	1,264.4
Share of state budget subsidies for financing total of housing allowances payments [%]	55.9	51.8	50.2	49.9	39.9	43.5
Average amount of monthly housing allowances [PLN]	61.79	67.66	83.26	106.10	119.5	131.4
within housing stock of:						
• gmina (municipal)	57.48	62.05	76.82	99.86	116.34	137.3
• cooperative	63.98	71.42	88.64	111.07	123.15	140.5
• company	65.92	72.08	87.55	117.20	131.28	131.4
• other	52.04	57.26	68.76	91.66	104.71	

NOTE: Exchange rates 1 USD to PLN, between the years 1991–2000: 1991—1.095; 1992—1.565; 1993—1.815; 1994—2.273; 1995—2.424; 1996—2.697; 1997—3.281; 1998—3.493; 1999—3.968; 2000—4.346 For the years between 1991–1992, the exchange rate is taken from 31st December for the coming years' annual average exchange rate.

SOURCE: On the basis of State Office for Housing and Urban Development.

Table A3.12
Buildings which Constitute the Sole Property of the Municipality,
in View of the Method of Management and Administration

Specification	1995	1996	1997	1998	1999	2000
Managed by the municipality	135,454	136,661	128,743	118,951	109,322	102,987
Managed by other entities	2,095	—	—	—	—	—
Administered by the municipality	135,762	134,300	125,789	116,464	105,902	97,039
Administered by an individual	165	526	1,466	180	1,170	952
Administered by other entities	1,622	1,835	1,488	2,307	2,251	4,996
Share of buildings administrated by the <i>gmina</i> [%]	100	98.2	97.7	97.9	96.	94.2

SOURCE: Central Statistical Office—Housing Economy 2000 and previous years.

Table A3.13
Buildings Co-owned by the *Gminas* (Condominiums),
in View of the Method of Management and Administration

Specification	1995	1996	1997	1998	1999	2000
Total number of condominium buildings	64,253	69,348	76,733	81,258	84,979	84,898
Managed by the <i>gmina</i>	61,297	67,779	71,932	74,527	77,845	72,205
Managed by other entities	2,956	1,569	4,801	6,731	7,134	12,693
Administered by the <i>gmina</i>	61,649	66,023	72,437	76,559	78,715	72,713
Administered by an individual	950	1,285	2,036	1,835	3,380	4,210
Administered by other entities	1,654	2,040	2,260	2,864	2,884	7,975
Share of buildings administrated by the <i>gmina</i> [%]	95.9	95.2	94.4	94.2	92.6	85.6

SOURCE: Central Statistical Office—Housing Economy 2000 and previous years.

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to a *Laissez Faire* Housing System
Local Government and Housing in Estonia

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From a State Controlled to a *Laissez Faire* Housing System

Local Government and Housing in Estonia

Anneli Kährik, Jüri Kõre, Margus Hendrikson and Ille Allsaar

INTRODUCTION

Estonia is a country in northeastern Europe with 1,361,000 inhabitants. Its independence—achieved in 1918, then lost during the Soviet occupation in 1940—was restored in 1991. Due to the relatively short duration of the last period of independence, current housing situation is, to a large extent, influenced by the period spent under the Soviet regime—the era when industrialized building technologies were introduced and housing construction volumes reached their peak.

Estonia is one of the smallest of the EU candidate countries in terms of its population and area (45,227 km²). Estonia has integrated itself smoothly into the global trading system and the degree of openness of the Estonian trading system (average of imports plus exports to GDP) was the highest of all candidate countries in 1998. Estonia has been transformed into a remarkably open and trade-oriented economy. The Estonian currency—the kroon—is fully convertible. GDP per inhabitant, at current prices in 1999, for Estonia was EUR 3,300 compared to EUR 21,200 in the EU15. Regionally, more than one-half of the national GDP was created by the capital city region in northern Estonia and its share in the national GDP grew continually from 1996–1998.

The biggest social problem in Estonia is unemployment. The unemployment rate (11.7% in 1999) is higher than in the EU15 (9.2%). Estonia differs from the EU in its employment structure: a large share of the people in Estonia are involved in the primary and secondary sector and a lesser share in the tertiary sector. In addition, the aging of the population is one of the most crucial issues in Estonia, because the proportion of the elderly is increasing considerably faster than that of children. This will result in the need for an increase in social support, the growth of health and pension fund disbursements, a decrease in the numbers and an aging labor force.

In the ethnic structure of the population, ethnic Estonians predominate with a 67.9% share (56.6% in towns and 91.3% in rural municipalities) [Census, 2000]. The rest of the population consists mostly of the Russian-speaking population, i.e. Russians, Ukrainians, Byelorussians, etc (in total 30.1%).

Administratively, the territory of Estonia is divided into counties (15), rural municipalities (205) and towns (42) (at the beginning of 2001, see Table 4.1). The local government units are rural municipalities and towns, whereas the regional administrative units are counties. The largest municipalities are Tallinn, the capital of Estonia, with 480,300 inhabitants (in Harju county) and Tartu with 101,700 inhabitants (in Tartu county) (Census 2000 data) (see Figure 4.1). The state administration in counties is carried out by county governors and the government agencies. In fact, counties are simply extensions of the central government; there is no directly elected representation of the people on the regional level. Thus, the local government system is one-tiered, taking place on the municipal level. All municipal units (towns and rural municipalities) are equal in their legal status.

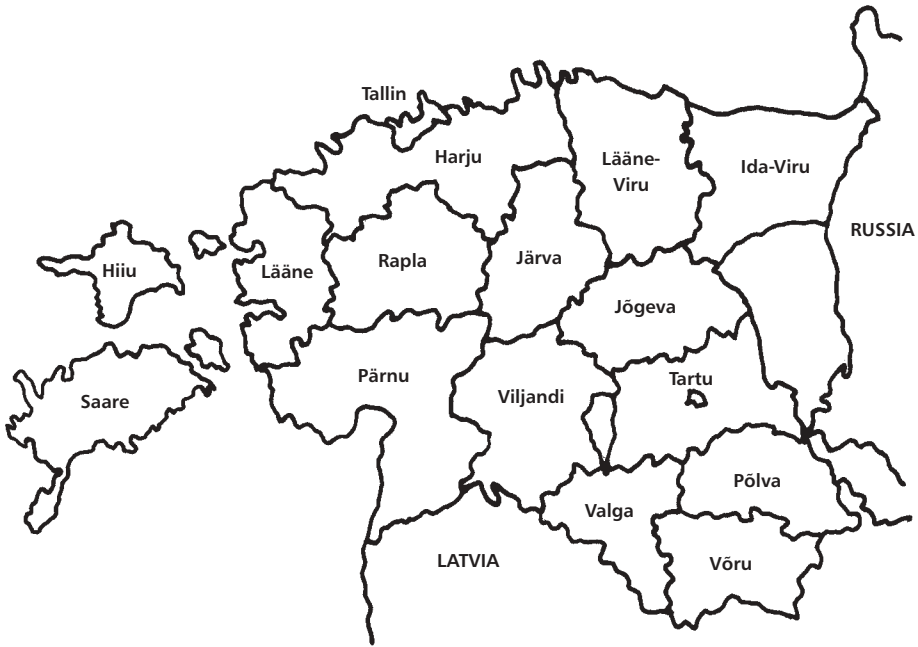
Table 4.1
Division of Municipalities in Estonia by the Number of Inhabitants,
at the Beginning of 2001

Number of Inhabitants	Number of Municipalities	[%]
under 1,000	32	13
1,001–5,000	179	72
5,001–10,000	22	9
10,001–50,000	11	4
50,001–100,000	1	1
100,001 and up	2	1
Total	247	100

SOURCE: Statistical Office of Estonia.

Compared to the other Central and East European post-socialist States, the housing reforms carried out in Estonia during the 1990s have been especially radical. Domestically, reforms in the housing sector have been more radical than in any other social policy field. In less than a decade, the housing policy turned from a state-controlled socialist housing system to an almost entirely *laissez faire* system. The reforms have most significantly changed ownership relations, resulting in the formation of a ‘homeowners’ society. In addition to the housing privatization and process of restitution of property nationalized by the Soviet regime, the reforms involved rent reform, i.e. the liberalization of the rental sector and housing management reorganization.

Figure 4.1
Estonian Counties



SOURCE: Regio Ltd (2002).

The study aims to give an overview of the main reforms that have taken place in the Estonian housing sector over the last decade and examines their social and economic consequences. The analyses are mostly focused on local governments. We show how the role of these administrative units has changed in influencing the housing sector, explain how and why local governments have reacted differently to the changing conditions and evaluate the efficiency of the current housing policies pursued by local governments. The analyses are based on Estonia's housing-related legislation, previous studies on housing, available statistical databases and the authors' own evaluations. A survey, the 'Local Government Housing Survey' (LGHS) was conducted among housing specialists working for local governments in Estonia. The survey involved all municipalities with more than 5,000 inhabitants (the total number of such municipalities is 37, response rate was 46%). In addition to the survey, two interviews were conducted with housing specialists from the local governments of the two biggest cities in Estonia: Tallinn and Tartu.

1. HOUSING AND NATIONAL HOUSING POLICY DURING THE TRANSITION

1.1 Housing Conditions

The regular data based on the summary of housing owners' reports in inter-census periods, indicates the number of dwellings to be 623,100 with a total floor area of 33,600,000 m² in Estonia at the beginning of January, 2000¹ (the Statistical Office of Estonia). The average per capita floor area was 23.3 m² and there were 432 dwellings per 1,000 inhabitants, making Estonia a country relatively well endowed with dwellings, compared to other European countries.

In the socialist housing system in Estonia, there were four types of tenure: state housing, municipal housing, private housing and cooperative housing, based on both private as well as public investments. In 1992, prior to the launch of the ownership reform, 26% of dwellings belonged to the State, 35% to local governments, 35% to private owners and 4% to housing cooperatives. Housing privatization and housing restitution were mostly completed by 2000. The restitution processes involved the majority of housing stock built before 1940. From the housing stock constructed during the Soviet period, the majority of the dwellings in multi-apartment houses were privatized, whereas detached and semi-detached houses were mostly privately owned by individuals already before the privatization.

In 2001, 94.8% of dwellings belonged to the private sector and 5.2% of dwellings were owned by the public sector, mostly by local governments (see Table 4.2). The cooperative dwellings are being privatized as well, firstly to the housing cooperatives and after that to individual owners, but this process is still ongoing. Dwellings returned to legal owners or their successors accounted for about 2.6% of the total dwelling stock. There were 22,500 households in those houses which were restituted (about half of them in the capital Tallinn) (*Tagastatud majade...*, 1998).

From the 1960s to the early 1980s, the rate of housing construction was quite high in Estonia (over 10 dwellings were constructed per 1,000 inhabitants annually). However, in that period the rate was not high enough to satisfy the housing needs of the population, which was growing rapidly due to extensive migration from the other republics of the Soviet Union. A decline in building volumes started in the second half of the 1980s and continued throughout the 1990s. Since 1996, the construction rate has remained at the level of 0.5–0.6 dwellings per 1,000 inhabitants. New housing construction has also been concentrated in northern Estonia. Until the 1980s, 1- or 2-room apartments accounted for over 50% of new housing built. In the 1980s, there was an increase in the prevalence of 3-room apartments. The share of one- and two-family

houses exceeded apartment dwellings during the second half of the 1990s. The new housing constructed in the 1990s has almost entirely been based on private funds—the funds of privately-held companies and individuals. Public sector investments in new housing construction have been minimal (Table 4.3).

Table 4.2

The Distribution of Housing Stock by the Type of Ownership in Estonia
(Beginning of 2001)

	By number of Dwellings [%]	By Floor Area of Dwellings [%]	Average Floor Area of Dwellings [m ²]
Public dwelling stock	5.2	3.8	39.2
..state	...0.6	...0.5	...39.7
..local government	...4.6	...3.3	...39.2
Private dwelling stock	94.8	96.2	54.8
..condominiums	...25.2	...25.2	...54.0
Total	100	100	54

SOURCE: Statistical Office of Estonia.

Table 4.3

Dwelling Completions by the Source of Finance

	Local Governments' Budgets		Private Individuals' Sources		Other Sources (Private Companies, etc.)		Total	
	Number	Floor Area [m ²]	Number	Floor Area [m ²]	Number	Floor Area [m ²]	Number	Floor Area [m ²]
1993	211	11,463	486	58,277	1,734	110,783	2,431	180,523
1994	26	1,906	507	64,527	1,420	92,742	1,953	159,175
1995	58	3,932	472	56,563	619	44,421	1,149	104,916
1996	30	2,293	500	64,183	405	37,054	935	103,530
1997	1	100	739	90,779	263	30,726	1,003	121,605
1998	0	0	525	66,487	357	32,828	882	99,315
1999	0	0	402	53,668	383	33,423	785	87,091
2000	1	99	314	45,084	405	33,680	720	78,863

SOURCE: Construction Register at May 1st 2001.

Due to negative migration rates and a natural decrease since 1992, the Estonian population has been on the decline. Therefore, despite the very low construction rates, the relative supply of dwellings (dwellings per 1,000 inhabitants) has improved slightly during the 1990s. There is no visible lack of living space in Estonia at the moment. According to Census 2000 data the number of dwellings exceeded the number of households by 5%. However, there are problems related to 'over-population' and the low quality of dwellings (e.g. different generations sharing one dwelling, a large percent of the living space is in a physically unsatisfactory state of dis-repair). Also, the population is unevenly distributed over the housing stock. Many small households occupy much of the living space and large families are relatively constricted. There is a geographical discrepancy between the housing market and labor market, with many vacant dwellings in geographically peripheral areas and overcrowded population centers. Although Estonia is among the leading Eastern European countries with respect to the number of dwellings per 1,000 inhabitants, it falls behind most of its neighbors in the quality of housing. About 40% of dwellings in Estonia were built before 1960. According to the data of the Living Conditions Study in Estonia in 1999 (*Living Conditions Study ...*, 2000), 72% of households in Estonia live in multi-apartment houses (41% in 5- and more story blocks of apartments) and 27% in detached houses. Households most frequently occupy two rooms (39% of all households) and they have the following facilities: 87%—running cold water; 84%—public sewage system; 77%—indoor bathroom; 72%—bath or a shower; 65%—central heating; and 63%—running hot water. The availability of the facilities has almost remained the same at the end of 90s as it was at the beginning.

Compared to 1994, households enjoy more privacy in their dwellings. 41% of households occupy a dwelling where the number of rooms exceeds the number of household members (while in 1994 only 24%). 26% live in housing where there are more household members than rooms (in 1994 only 42%) (Table 4.4).

Renovation projects have mostly been implemented by private funds (initiated by individual owners, condominiums or housing cooperatives²). Local governments have not directly financed the projects. Apart from the investments of private individuals, a few small-scale regeneration projects have been carried out in the main cities of Estonia. In Tallinn and Tartu these involve one or two housing quarters in the wooden tenement-housing zone surrounding the central city. These projects have involved the demolition of dilapidated buildings and the construction of small-scale apartment houses and terraced houses. Projects have been developed by private companies (detailed plans were designed by local governments, infrastructure already existed there before). As the demand for newly built dwellings is low, due to the limited credit capability of the majority of the population (though there is a need for the improvement of living conditions) private developers prefer to invest in projects with quick turnover and a high return rate,

such as the new housing quarters on the outskirts of the city of Tallinn. Therefore, the regeneration projects have not been implemented to a previously planned extent. In addition to these projects, a few ‘model buildings’ have been thoroughly renovated as pilot projects in the housing estates of Tallinn and Tartu, in cooperation between town governments and foreign institutions (such as Swedish Foreign Aid Agency NUTEK, Phare). The investments by the Tallinn and Tartu municipalities were minimal in these projects—local governments were involved in the organization of seminars and selection of houses for renovation. In the case of Tartu, residents (i.e. condominiums) did not have to pay for the renovation costs, whereas in Tallinn, condominiums covered partial costs, receiving loans for this purpose.

Table 4.4

Indicator of Privacy in Estonia According to the Living Conditions Surveys,
1994 and 1999 [%]

	Living Conditions Survey 1994	Living Conditions Survey 1999
Number of household members exceeds number of rooms	42	26
Number of rooms is equal to number of household members	34	33
Number of rooms exceeds number of household members	24	41
Total	100	100

SOURCE: Statistical Office of Estonia.

1.2 National Housing Policy Objectives and Legislative Changes

1.2.1 Housing Policy Objectives

The current housing policy objectives and strategies derive from the programs of the main political parties in Estonia. The bases for the current political developments at the national level are established in the coalition compact (between *Reformierakond*—the Reformist Party and *Keskerakond*—the Central Party) but housing policy questions are only very briefly covered. The compact points out the following objectives:

- To find solutions to the problem of tenants in restituted housing;
- To find possibilities to transfer financial resources to local governments for the new municipal housing construction;

- To improve the existing system of social benefits by increasing the share directed to households in real need and by decentralizing the system in giving more decision-making freedom to local governments.

The national government has not yet succeeded in approving the national housing strategy as a single document with clearly defined housing policy objectives on the basis of which local governments could develop their housing programs. In the preliminary version of the Estonian Housing Strategy (prepared in 1999) the aims of the Estonian housing policy are defined as follows [*Eesti elamumajanduse ...*, 2000]:

- To establish physical and social safety in the housing sector and housing accessibility (includes the formation of a legal framework);
- To establish ‘professionalism’ in housing, i.e. to secure conditions which allow the furtherance of the knowledge and professional skills of all parties in the housing sector;
- To support the initiative of individuals and households in access to housing and in the improvement of their housing situation, to establish favorable conditions for non-governmental organizations in the housing sector and to stabilize ownership relations.

It is stated in the strategy that “the State with its structures should not secure housing for all population groups and support them directly in the improvement of their housing conditions. Rather, it is necessary to support the establishment of conditions, the institutional environment and financial instruments for ensuring the support, so that housing owners, tenants, managers and non-governmental organizations could cope with the housing problems by themselves” [*Eesti elamumajanduse ...*, 2000: 7].

The preliminary version of housing development strategy is based on a relatively liberal attitude toward housing development. Although the strategy pays considerable attention to the enlargement of the municipal and social housing stock, it is mostly aimed at solving the problems of tenants in restituted housing (see below). In our opinion, the national housing strategy should, however, support housing development, i.e. to increase the supply-side housing subsidies and support, directly and indirectly, housing construction and renovation. This would help to prevent further price increases, improve housing affordability and choice in the housing market. If there is more supply and choice, the housing market will likely be less segmented. The housing strategy should be related to regional policy, labor and social policy. To ensure an efficient implementation of housing policy, the strategy should contain long-term housing policy aims, where the financial means and opportunities are also specified. Housing policy and its means should be targeted to all families who have little opportunities to obtain an adequate standard of housing in the housing market.

1.2.2 Housing Legislation

The Constitution of Estonia does not directly regulate the housing side of the economy and housing conditions. This area is regulated by other special acts: the Law on Local Government Procedure, the Housing Act, the Principles of Ownership Reform Act, the Privatization Act, the Planning and Building Act and the Social Welfare Act. According to the Constitution, private property is inviolable. Property can be expropriated without the consent of an owner only when it is in the public interest and fair and immediate compensation is made to the owner. Everyone has the right to freely possess, use, and dispose of his or her property.

The principles of housing restitution and privatization were stipulated in the Principles of Ownership Reform Act (approved in 1991) and the Privatization Act (approved in 1993). According to these acts, the purpose of the ownership reform was to restructure ownership relations in order to ensure the inviolability of property, to undo the injustices caused by the violation of the right of ownership, and to create the preconditions for the transfer to a market economy. In the course of the ownership reform, property in the state ownership was transferred without charge into the municipal ownership (the municipalization of property) and after that it goes into private ownership (the privatization of property).

The purpose of *housing restitution* was to return (or to compensate for) the illegally expropriated property back to their former pre-WW II owners or their legal successors. Leases, in force at the time of the return of a residential building, were deemed to be valid for three years after the transfer of ownership unless the tenant and the owner agreed otherwise. After that deadline, the central government was forced to extend the leases until 2007. Tenants living in restituted residential buildings are entitled to receive a new rental dwelling or are entitled to apply for a loan or grant from the State or local government for resettlement or for the purchase of a dwelling. In the case of eviction, local governments must provide tenants in restituted housing with a dwelling that is located in the same municipality and is comparable to the tenant's previous (restituted) dwelling in quality and size. The Housing Act states that if it is impossible for a local government to provide such a dwelling, the State must provide means for the purchase or construction of such dwellings for local governments. In reality, the central government has not supported local governments in this, even though many municipalities face such problems.

Housing privatization, starting in 1994 (the duration of privatization to sitting tenants lasted until June 2001), began on extremely favorable terms for tenants. All municipal tenants who did not occupy restituted housing had the right to buy their rental dwellings. By law, local authorities could also restrict the privatization (by selecting dwellings not designated for privatization). Yet, in reality the pressure for privatization was so strong and the governments' resources so very limited, that they seldom used

that right. For the most part, the purchase of apartments occurred through vouchers, i.e. privatization checks (public capital vouchers, or *EVPs*). Privatization was restricted for households that did not have enough *EVPs* (though money could be used for privatization as well), but these formed a marginal group of tenants.

All individuals permanently living and working in Estonia were entitled to *EVPs* that were distributed on the basis of the length of time worked in Soviet Estonia; one year was made equal to *EVP* 300. The privatization price for dwellings was calculated by the price difference between a particular dwelling and the ‘standard dwelling’—which is an apartment in a 9-story prefabricated (panel) building and for which the fixed privatization price was applied. In the ‘standard dwelling,’ one m² was equal to one working year or *EVP* 300. The amortization state of a dwelling, the state of maintenance and location were taken into account in calculating the final privatization price of a dwelling. For instance, as an average working period for a pensioner in Soviet Estonia was 40 years, a pensioner could usually privatize a 2-room apartment for his *EVPs*. *EVPs* can be freely purchased and sold—the exchange rate at the moment (in June 2002) is *EVP* 1 = EEK 0.7 (USD 0.04). Dwellings could also be sold for money or traded for the securities issued for the compensation of illegally expropriated property and the employment shares issued to collective farm workers. The direct financial costs (i.e. in terms of money) of privatization for tenants were low and consisted mainly of legal fees for the transaction (which did not exceed 1% of the total value of the transaction). In the case of property that was not restituted nor privatized to the sitting tenants, the sale occurred in the form of a public auction.

Due to the significant changes in tenure structure, today’s rental sector has become dualized, consisting of mostly residualized public dwellings with a relatively low rent level and of a newly emerged private rental sector that is formed from the restituted and privatized flats that are rented out at market prices. In some municipalities a rent regulation still applies to the old tenants of restituted housing. No reliable data is available for the number of privately owned rental apartments. The data of the Statistical Office of Estonia indicates that about 10% of individuals rented their housing from private parties in 2000. In reality, the share of tenants in private housing is most likely higher than this figure.

The main objectives of the ownership reform have been achieved by today. The ownership relations have been restructured (as well as the responsibilities of renovation and maintenance), the injustices caused by the Soviet regime concerning the violation of the right of ownership have been mitigated to some extent and a private housing market, designed to operate on a free market basis, has been created. However, the ownership reform applied in Estonia created the following inequalities [Kährik, 2000]:

- Some households who became property owners received large financial gains from the process, whereas the gains for other households were minimal as property market prices vary greatly between regions and within municipal territories;

- Inequality characterizes the situation of, on one hand, those public tenants who had an opportunity to privatize their housing or who got their property back and, on the other, those who were deprived of that right as the property was to be returned to the former owner;
- Younger generations and those households who did not occupy public housing have gained little or nothing directly from the privatization process. Among them, we find residents of private houses and members of cooperatives who had already incurred much higher housing-related expenses during the Soviet period.

The most frequently discussed negative consequence of the ownership reform concerns tenants in restituted housing. Occasionally, a purchase is made possible by an agreement with the owner on free market terms. Tenants in restituted housing demand the same rights as the public tenants (who could privatize using *EVPs*). They expect local governments to offer them new housing which they might privatize later, or to receive so called *EVP* loans, which would enable them to buy a dwelling on the market using *EVPs*³. So far, local governments have not been active in solving these problems, although they are legally bound to do so. Municipal councils have extended the rent control period in restituted housing so these tenants do not get evicted en masse. Local government representatives have estimated that 40% of the owners of restituted housing are willing to end existing leases (so they can renovate a house and rent it out for several times higher rent) or to convert the dwellings to non-residential spaces. Therefore, many tenants in restituted houses do not have an option to continue as tenants with a new landlord.

Besides the problems arising from the conflicts between tenants and owners in restituted housing, there are other weaknesses and shortcomings that result from massive homeownership which the new order has not been able to resolve. The level of housing construction and housing renovation is very low, the public rental sector has become marginalised (residualised) in terms of its social and physical structure and housing affordability has declined. According to the 'filtration of the available housing' theory [Knox, 1995] which forms the basis for the *laissez faire* housing policy, the more affluent individuals occupy new dwellings in the market (newly constructed and existing) whereas lower income groups can raise their living standard by moving to the dwellings vacated by the upper income groups. In Estonia, as in many other countries, the model does not seem to work. Firstly, social groups with lower incomes are not able to obtain the housing vacated by the affluent, because the purpose of such housing can be changed (from residential space into office or business space) or the space can be used by family members (retired parents, children). Secondly, the number of households able to obtain new housing is very small. During the last five years, an average of 950 new dwellings were built annually, which indicates that 0.2% of households can potentially move into

newly built housing each year. Thirdly, the living conditions of affluent households already experienced a substantial improvement by the first half of the 1990s and the majority of these households are no longer active in today's housing market [see *Social Trends 2*, 2001].

In 1994–1996, a package of the laws regulating the activities of local governments was adopted. If, up to that point, local governments had the 'right' to fulfil their functions, taking over from the county government, then now it has become an 'obligation'. *The Law on Local Government Procedure* determines the tasks, responsibilities and the arrangement of local governments and relationships between local governments and state government institutions. According to the law, local government units are responsible for social assistance and services, the care of the elderly, housing and community services and utilities, water supplies and sewage, common weal, physical planning, transport, the maintenance of roads and streets, in the event these tasks are not in someone else's responsibility. Local government units are also responsible for the maintenance of shelters and care homes and other local institutions, if they are municipal property. In cases prescribed by the law, certain expenditures made by these institutions may be financed from the state budget or from other sources [RT I, 1994]. The division of responsibilities between central and local governments is not always clearly expressed by legislation. There are many areas (social welfare and health care) of shared and ambiguous responsibility. In general, the local governments feel that their responsibilities are overwhelming in light of the limited available resources.

The Housing Act, approved in 1992, states that the central government is responsible for defining the groundwork for housing allocation, occupancy and the management of state-owned dwellings, the principles of socially-justified living space and the differences in applying it, the principles of landlord–tenant relations and rent calculation and the principles of the establishment and management of condominiums. Local governments are entrusted with devising procedures for the registration of persons who do not have a dwelling or a permit to occupy a dwelling, and of those who are unable to improve their housing situation on their own. They are also charged with the allocation, occupancy and management of the dwellings in their ownership, including overseeing maintenance and repair procedures.

The Housing Act abolished centrally governed rent regulation. Rental price should be set at a level allowing it to cover the actual costs of housing, i.e. the costs for housing maintenance (includes costs of small repairs), the renovation costs (for more expensive improvements of housing quality, this also includes loan costs, if funds are borrowed for housing renovation⁴), housing services and owner-profit which is allowed to account for up to 10% of the total rent price. In addition to rent, tenants must pay for the water supply, sewage, electricity, heating costs and natural gas (if these facilities are available), cover the costs on land tax to the extent of the land the tenant uses and the costs on building insurance to an extent that corresponds to the size of the living

space the tenant occupies. Local governments, however, obtained the right to regulate rent levels in dwellings within their municipal territory. Although this applies to all dwellings irrespective of ownership, it actually gives governments the possibility to regulate rents only in the municipal dwellings and in restituted dwellings⁵, because in today's housing market, the demand exceeds the supply and, according to the law, rent is set by an agreement between a landlord and a tenant.

For large housing estates, the management of the units is increasingly given over to condominiums that usually contract private management companies and companies to provide housing services. Condominiums are non-profit organizations having the status of a legal person that are charged with the management of the common spaces of the buildings and of the land that belongs to the building; they represent the interests of apartment owners. Housing management is carried out in concert by apartment owners (i.e. every apartment owner can vote equally at general meetings, with decisions taken by a majority vote). The members of condominiums are all apartment owners within one building. The establishment of condominiums has gained momentum during the past few years, as apartment owners have started to realize their rights and responsibilities as owners. The union of Estonian condominiums (formally known as the Estonian Union of Cooperative Housing Associations)⁶ was founded in 1996. At the beginning of 2002, 710 condominiums and former housing cooperatives were members of the union (34,000 apartments and approx. 100,000 residents).

A distinction should be made between social housing (which is in municipal ownership) and municipal housing in general (includes dwellings which have not yet been privatized as well as 'social dwellings'). According to the *Welfare Act*, the 'social dwelling' is a dwelling in the municipal ownership designated to a person who needs social assistance. Social housing is supposed to include special social services. However, in reality social housing does not mostly correspond to the requirements imposed by the law. Usually, the same rent level and rental conditions apply to both social dwellings and other dwellings in municipal ownership. In addition to municipal housing, a housing service is also provided through other institutions like shelters (during 1999 1,700 persons stayed in these places for some time), social rehabilitation centers (during 1999 4,700 persons stayed there for some period) and social welfare institutions (care homes for adults with 5,800 registered persons at the beginning of 2000 and care homes for children with 1,700 registered children and young people at the beginning of 2000). These institutions are not included in the analyses of the current study. The law states that local governments are obliged to provide a rental social dwelling or an opportunity to use a shelter to a person or a household who is not able or capable of obtaining it by himself. Local governments must assist disabled or other persons with special needs by adjusting the dwelling to their needs or finding them a more suitable dwelling.

The *subsistence benefit* in Estonia is a monetary support granted to promote the ability of a household to cope with, among others things, rising housing costs. In the period

of 1994–1996, a specific housing allowance was applied. The State compensated, via a housing allowance, for those housing costs that fell within the standard allotted living space and exceeded one-third of a family's income. This allowance was accompanied by the subsistence benefit, paid to persons whose monthly income was below the subsistence level. Both allowances were granted and paid on a monthly basis by local governments from the funds of the state budget allocated for this purpose.

In 1997, the two benefits were combined into a unified subsistence benefit, also paid through local governments. In the new system, local governments were again only in an administrative position, i.e. they paid the benefits as the law dictated, whereas the financial means came directly from the state budget. The aim of the change in the system was to reduce the proportion of recipients of assistance in order to cut public expenditure on social benefits. The benefit went to households whose net income, after housing expenses, remained below the subsistence level established by the central government. The basis for the granting of subsistence benefits was the monthly income of the household after the payment of housing expenses for the use of the standard allotted living space with a maximum ceiling. The following housing costs were taken into account when deciding on the benefit: actual housing rent or management costs, the heating costs of dwelling and the heating costs of hot water, water supply and sewage costs (based on usage) electricity costs, costs of gas, land rent costs and the costs of building insurance. The Welfare Act enables local governments to set housing expenditure ceilings that are included in the payment of subsistence benefits.

The difference between the subsistence level—EEK 500 (USD 40.2, using rate from January 01, 1997) for the first household member plus EEK 400 (USD 32.2) for each additional member (at the moment of contract)—and the household's monthly income decreased by housing expenditures was covered by the benefit. For example, if a one-member household's monthly income was EEK 600 (USD 48.3) and the monthly housing expenditures EEK 300 (USD 24.1), then EEK 200 (USD 16.1) was compensated. In general, 18 m² of total area per household member and a supplementary 15 m² per family were considered a standard allotted living space. Both housing owners as well as tenants were eligible for benefits [see also *Living Conditions*, 2000].

The only municipality that did not change the benefit system in 1997 was Tallinn who continued paying the two different supports—housing allowances and subsistence benefits—until 2001. Households whose housing expenses exceeded 40% of their income, were eligible for a housing allowance. Since 2001, the unitary system of subsistence benefits was also applied to Tallinn.

Since 2002, according to the agreement between the ministries and local governments, the subsistence benefits have been distributed and paid from the local governments' budgets (these are transmitted there from the central government's budget) on the basis of conditions and a level determined by the law. The means are transmitted to the budgets of the local governments as part of the support fund at the disposal of local

governments. The distribution of means is based on the proportions of benefits paid in 2000 and 2001.

The administration of planning, design and construction in the territory of local governments is the duty of local governments. *The Planning and Building Act* regulates relations between the State, local governments and other parties in the planning process, building design, housing construction and the intended uses of buildings. Local governments must produce long-term land use plans for the whole territory of the municipality (comprehensive plans) and detailed plans for smaller parts of a municipality that are the basis for construction activities in the short term. Local governments are obliged to build the infrastructure in new housing construction areas with their financial means.

The Income Tax Act states that tax is not subtracted for income derived from housing expropriation (housing that the taxpayer occupied until the expropriation, housing that was restituted to the taxpayer and in other specified occasions). Interest of the housing loans is permitted to be subtracted from taxable income (on specified occasions such as housing purchase or construction for the taxpayer's own use, for his children or parents, etc.).

1.3 Housing Market and Housing Finance

Before the 1990s, the private housing market was very small in Estonia. Apart from transactions with privately owned housing (in the private sector a person could own only one property) the user rights for state-owned dwellings (i.e. rent contracts) were traded to a minor extent. As the transactions with state-owned housing were illegal, they were formally carried out in the form of other transactions (fictitious marriage agreements, apartment exchange, etc.). The housing market started to develop rapidly after the city councils of Tallinn and Tartu legalized the selling of user rights—'key rights,' in the vernacular—for rented municipal apartments in 1993. At the same time, municipal funds were established for the purpose of issuing housing loans. There was, however, no legal base for the selling of user rights. User rights were sold on the basis of decisions made by local government authorities (in Tallinn and Tartu). Later, the Privatization Act was adjusted to reflect the actual situation. The privatization price for a dwelling was reduced to the amount a tenant or other member of a household had paid to the local government for the right of occupancy.

When the privatization and restitution processes developed, transactions with private property became gradually more active. Real estate specialists distinguish between active and passive property markets. The housing market is the most active in the Tallinn region, Tartu and Pärnu and less active in small towns and rural regions. There are, however, a number of small towns which, for various reasons, enjoy a good reputation

and where the property markets are also characterized by higher-than-average activity and price level compared to their surroundings. These towns include some regional centers and holiday resorts. In 2000, 74% of all transactions by value were carried out in Tallinn and Harju county.

Owing to the government's liberal housing policy, the extent of housing construction and transactions with existing housing units are largely determined by the lending policies of banks. Until the middle of the 1990s, the interest rates of commercial housing loans were extremely high (about 20%). At that time (in 1995), the central government founded the Estonian Housing Fund, which granted loans and operated on the finance allocated from the state budget to state loan projects.

During the last several years, *commercial housing loans* have accounted for about 50–60% of loans granted to private individuals and about 10–12% of the total loan portfolio. In reality, loans received by companies (in sole personal ownership) may also be used for housing-related projects. The conditions for issuing commercial loans have become more favorable. Since 1995, the interest rates have fallen gradually (e.g. interest rates for housing loans issued by commercial banks to private individuals dropped to 8% in 2002 (the Bank of Estonia). In spite of the decline, the candidates for commercial loans are only from the highest-income bracket. Most households do not have access to these loans (due to bank requirements such as a certain level of regular income, collateral, etc.).

The average per capita savings deposit in banks was only EEK 10,200 (USD 606.4) (the average of deposits and current accounts), i.e. average wages for approximately two months. A 55.4% share of the total value of savings deposits belonged to the residents of Tallinn in 2001. According to the Bank of Estonia, the average value of loans issued by commercial banks in 1999 was EEK 117,300 (USD 8,746.9, using exchange rate of January 1).

In 1995, the *Estonian Housing Fund* was established by the central government. The loans of the Fund were issued through commercial banks. In the first few years after establishment, banks distributed the state sources (banks also added their service fees). With such a method, the State attempted to reduce high interest rates, but as the loan resource was relatively small, this strategy was not very successful. Only smaller commercial banks joined up with the project. Some years later, the State started to guarantee loans issued by commercial banks. The State guarantees made it possible to reduce a share of the borrower's own finance for special groups. The State guaranteed that commercial banks would receive the money back from the borrower—when the borrower was unable to pay the loan back (and the loan guarantees of the borrower were exhausted) the State paid the money back to the bank up to the guaranteed amount. The funds came from the state budget and from the privatization scheme (25% of the income from privatization was transferred to this Fund) (Table 4.5). In 2001, the Fund was abolished and some of its functions transferred to a self-managing guarantee

fund, the *KredEx*, established in 2000 within the administrative field of the Ministry of Economy. Besides guaranteeing the housing loans (for the purchase and renovation of housing), this institution also guarantees loans which support trade and small- and medium-sized enterprises (www.kredex.ee).

Table 4.5

Estonian Housing Fund's Financial Means Available for Housing Loans in Estonia, 1995–2000 [USD, millions]

	1995	1996	1997	1998	1999	01.01– 01.03.2000
From the state budget	1.3	2.5	1.4	0.7	—	—
From privatization	—	6.9	9.0	7.2	9.9	0.4

SOURCE: Estonian Housing Foundation.

The system of state loans has become gradually more accessible since its foundation. Initially designated mostly for new construction, the system became more flexible and enabled families from special demographic groups to purchase apartments and renovate dwellings. State loan resources and guarantees have been aimed towards young families, young teachers, tenants and owners in restituted housing, local governments and condominiums. The two main loan projects financed by the Estonian Housing Fund (before its abolition in 2001) were:

- Loans to young families with a child (children) under 16 years;
- Loans to tenants in restituted houses, the so-called 'privatization voucher (*EVP*) loans.' These were designated to the re-allocation or purchase of the dwelling. With this loan, a tenant purchased a dwelling at the market price but repaid the loan in *EVPs* (with the rate $EVP\ 1 = EEK\ 1$). Thus, the State paid the difference between the *EVP* and *EEK* value: At today's rate 60% of the dwelling price would be paid by the purchaser and 40% by the State (the exchange rate was, however, more favorable some years ago). The interest rate was 12% and the loan had to be repaid within 15 years. The loan was very popular but the resources were limited. Moreover, many that were interested did not qualify.

Today, the *KredEx* provides guarantees on loans to young families, persons under 35 years of age who are employed 'specialists' with a higher or a vocational education and loans to condominiums (Box 4.1).

Box 4.1

Good Practice for Influencing Better Affordability of Housing Loans to Special Groups

Since 2000, the Foundation for Credit and Export Guaranteeing KredEx has offered guarantees to the loans issued by commercial banks. The foundation is within the administrative field of the Ministry of Economy. It is a self-managing institution that earns a financial profit. In 2001 no financial means were allocated from the state budget.

The KredEx provides guarantees to the loans issued to:

- *Young families with a child under 16 years of age (guarantees up to 75% of the loan amount)*
- *Young specialists, i.e. young people with a specialized or higher education (guarantees up to 75% of the loan amount);*
- *Condominiums (guarantees up to 75% of the loan amount). Guarantees enable borrowers to take loans without mortgaging an apartment owners' property. Priority is given to loans which are directed to modernization or renovation of a heating system or communications, improvement of a building's thermal insulation, renovation of staircases or roofs and to other activities which improve a building's economy, security or life quality. The loan repayment period is normally up to 7 years. The annual guarantee charge is 1.5–2% of the loan amount.*

With KredEx guarantees, commercial banks issued housing loans—for the purchase and renovation of housing—for EEK 736 million (USD 43.7 million, exchange rate of 2001) in 2001. Through these loans, 2,545 young families and 587 young specialists improved their living conditions. The amount of guaranteed funds was EEK 145 million (USD 8.2 million, exchange rate of 2002) by the end of 2001. This will be increased in 2002 considerably.

SOURCE: www.kredex.ee

The loan guarantees provided by the Estonian Housing Fund and the KredEx have been efficient policy instruments. Before the state-guaranteed loans were introduced, those who wished to buy a flat often did not have sufficient self-financing (this extended up to one-third of the cost of a dwelling) and the interest rates were relatively high. Thus, loans have now become more affordable, especially for younger people. Instead of financing the housing purchase from a household's own funds, it is now possible to carry out renovations on purchased housing.

1.4 Housing Affordability

Both the average monthly income and housing prices vary from county to county in Estonia. Table A4.1 (in the Appendix) shows the variation in average salaries, home-ownership prices (calculated for an average apartment in a multi-apartment building) and price-to-income ratios in different regions of country. The ratio varies from 44.6

months in the most developed Harju county, to 5 months, in Jõgeva county with the lowest level of home-ownership prices.

The percentage of housing expenses from household expenditures has sharply increased during the transformation period. While in the second half of the 1980s, households living in state-owned apartments spent 2–3% of their total expenditures on housing on average, the share of housing expenditure had risen to 19% by 1999. Spending on housing was exceeded only by expenditure on food (34%) in the total budget of households in Estonia (Table 4.6). In 2000, an average of EEK 340 (USD 21.8) was spent on housing expenses per household member (this does not include housing purchase or costs of renovation, loan repayments and interest rates) (Statistical Office of Estonia). The expenses in apartments (in multi-apartment buildings) were EEK 387 (USD 28.8) compared to EEK 194 (USD 14.5) in one-family houses. In housing estates, the regular maintenance costs are higher because the heating system is often not modernized and water meters are not installed. The housing expenditures are higher for tenants than for homeowners: households that rented private housing spent EEK 430 (USD 32.1) per individual in 1999, an amount which exceeds the average expenses paid by homeowners by EEK 100 (USD 7.4). The amount of housing expenses is strongly influenced by the presence of amenities [*Living Conditions*, 2000].

Table 4.6
Expenditure of Households in Expenditure Deciles in Estonia, 2000
[Monthly Average per Household Member, in %]

	I	II	III	IV	V	VI	VII	VIII	IX	X
Food	51.0	46.7	43.3	39.5	38.1	36.0	31.8	28.9	25.0	15.3
Clothing and footwear	3.8	4.1	4.5	5.0	5.8	6.3	6.7	7.8	7.4	9.0
Housing	16.3	16.1	17.1	18.2	16.7	16.3	15.3	14.7	14.8	13.9
Transportation	3.5	4.5	4.8	4.9	5.7	6.8	8.3	8.8	10.3	14.9
Other	25.4	28.7	30.3	32.3	33.7	34.6	37.8	39.8	42.5	46.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: Statistical Office of Estonia.

In 1999, 57% of households spent 20% or less of their total expenditure on housing, 33% of households spent 20–40% and 10% of households spent 40% or more on their housing. The most disadvantaged category is one-member households of persons aged 65 years or over, who spent 27% of their income on housing. This is, however, the category with the largest share of people over-consuming their housing. In around

56% of the cases there are at least two rooms per person [Living Conditions, 2000; Social Trends 2, 2001]. Households with a different socio-economic status differ in the structure of expenditure (Table 4.6).

The majority of the population is unable to finance housing renovation. A total of 40% of households 'approaching the poverty line' (this group accounts for 23% of the total population) and 59% of 'poor' households (10% of population) were not able to renovate or improve their housing during 1997–1999 [Living Conditions in Estonia, 1999]. In 1999, the average monthly amount spent on regular dwelling repairs was EEK 70 (USD 5.2) per household member (this does not include expenditure on major repairs). The share of expenditure on maintenance and repairs of housing increased slightly in 1997–1999 [Living Conditions, 2000].

2. EFFICIENCY AND EFFECTIVENESS OF LOCAL GOVERNMENTAL HOUSING POLICIES

The second part of this report focuses on the implementation and consequences of the national housing reforms with respect to the local level and issues related to the municipal housing stock. Thereafter, the discussion turns to the housing policy objectives and strategies of local governments. The empirical data presented in this part emanates mostly from the Local Governments Housing Survey (LGHS) which was carried out among local government housing specialists in municipalities having over 5,000 inhabitants. The survey was conducted over a two-month period at the end of 2001. The response rate to the mailing survey was 46%. Local governments belonging to different size categories responded to the survey as follows⁷:

Table 4.7
The Survey Rate of Return

Number of Inhabitants	Number of Municipalities		Percentage	
	In Total	Responded	In Total	Responded
5,001–10,000	21	10	57	59
10,001–50,000	11	4	30	24
50,000 and up	5	3	14	18
Total	37	17	100	100

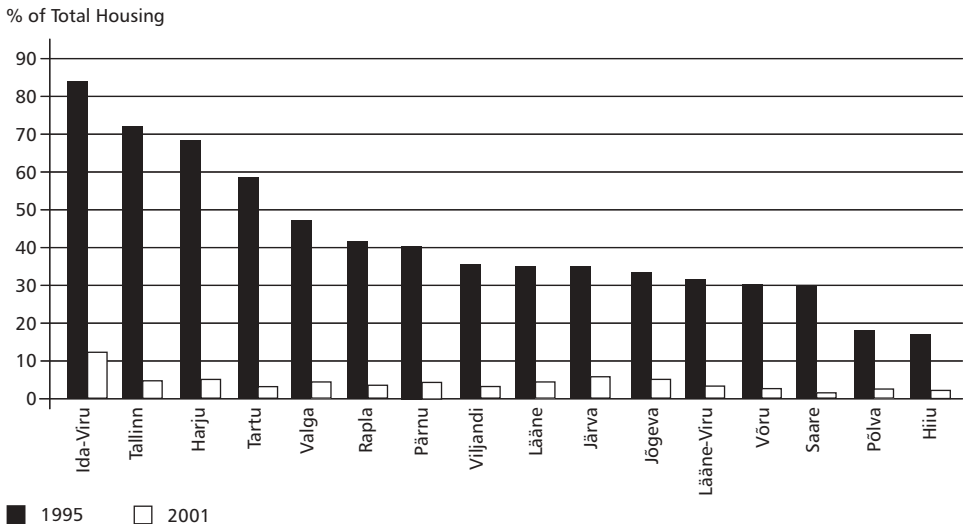
Due to the very low number of municipalities in Estonia, no special weighting procedure has been applied and the following results are thus presented as simple frequencies counted on a non-weighted data sample.

2.1 Local Government Housing

The privatization of public housing stock has followed the same centrally defined rules in all municipalities. That is, local governments have officially had no opportunity to adopt an independent privatization strategy. Due to the very high pressure for housing privatization from the tenants' side, it was extremely difficult for local governments to leave housing in public ownership and more significantly, they were not motivated to do so (it was in their interest to cut expenditure on housing as much as possible). In reality, the reasons for not privatizing a dwelling were more likely related to the lack of financial resources (privatization vouchers, etc.) for some households or the lack of awareness of their rights and less likely to be related to the low standard of housing. In towns in northeastern Estonia, a bigger number of apartments remained in public ownership because of the high rate of emigration (this is a region where the non-Estonian—mostly the Russian-speaking population—is highly concentrated). Due to these reasons, there were minor differences in the extent of privatization between municipalities (Figure 4.2). In most cases (particularly in Tallinn), it was economically extremely beneficial for tenants to privatize due to the (future) market prices. The major motivations to privatize were, however, a fear of losing one's home and the possibility of using privatization checks (*EVPs*) which were issued in proportion to years of employment.

Figure 4.2

The Share of Municipal Housing Stock in 1995 and 2001



SOURCE: Statistical Office of Estonia.

According to the data from the Statistical Office of Estonia, the share of municipal housing accounted for 4.6% of the total housing stock (public sector housing in total 5.2%) in Estonia in 2001. City governments in northeastern Estonia own a bigger share of housing stock than do cities in the rest of the country. For instance, in Kohtla-Järve (47,100 inhabitants) the local government's housing accounts for 14%, and in Kiviõli (7,300 inhabitants) no less than 24%, of the total housing stock. But even before privatization, public housing stock constituted a larger proportion of housing in this region.⁸

According to the results from LGHS, the major share of local government-owned dwellings is located in 1–4-story apartment houses (63%). A total of 19% are located in 5– or more story apartment houses and 18% in detached or semi-detached houses. The fact that the share of detached houses is just as large is due to smaller municipalities, where the number of municipal dwellings is low, but where they are more often located in detached houses. The average size of a local government dwelling is 35.3 m² and the average dwelling has 1.7 rooms (i.e. average in municipalities with over 5,000 inhabitants) (LGHS). According to the data from the Statistical Office of Estonia, the average municipal dwelling has 39.2 m² living space. The municipal dwellings are less spacious than privately owned dwellings (average floor area 54.8 m²) [Statistical Office of Estonia]. In terms of housing quality, a distinction can be made between dwellings with all the basic facilities (including running hot and cold water, shower/bath, sewage system, water closet and central heating—the flats in housing estates fall into this category) and dwellings with only some of the amenities or without amenities at all. The first category usually comprises relatively modern housing stock (built after the 1960s) that tends to be of a better standard than the latter quality (in very broad terms). This distinction, however, is an arbitrary one and in many cases the amenities do not have a clear connection to housing quality. For instance, housing estates constructed in the 1960s are often in a very poor state but have all the mentioned amenities. On the other hand, some apartments in old buildings lack central heating but are still very highly valued. Local government housing consists almost equally of dwellings with all the basic amenities (approximately 48%) and of dwellings with only partial amenities or without any amenities (52%) [LGHS]. Compared to private housing, the municipal housing stock is of a lower standard. For instance, bath facilities like a shower or tub are installed in only 57% of the municipal housing stock, compared to 84% in the private sector and 64% have a central heating system compared to 82% in the private sector. A total 25% of municipal housing was constructed before 1945 compared to 12% of private housing [Statistical Office of Estonia]. This indicates that municipal dwellings are relatively older, lower quality, and less modern.

According to LGHS data, the local government apartments where thorough renovation/modernization has recently been carried out, or which are newly built, account for an average 2.6% of local government's housing (but the median is 0, i.e. over half of municipalities do not have such housing at all).

Presented indicators show the first signs that public housing is becoming residualized. This is mainly because the better housing units have been privatized and municipalities cannot generally afford to construct new housing or modernize the existing stock. Due to the fact that lower social status groups usually occupy municipal housing, it has become problematic to maintain even the present housing standard. Public housing stock is becoming physically and socially marginalized. A suggested option would be to privatize the existing residual (the lowest) quality public housing because it is too expensive to upgrade and inefficient to manage. Instead of concentrating on public housing units in certain neighborhoods, a better option would be to disperse them over the territory of the municipality (or have just very limited clusters of social housing blocks) to avoid social segregation and prevent social exclusion.

2.1.1 Management of Municipal Housing

Until the end of housing privatization, when condominiums had not yet been established, housing management was organized by the parties charged with ownership reform—in most cases, local governments or the State. The former public management institutions were reorganized into housing management companies, usually owned by local governments (legal or non-legal bodies). Recently, housing management has increasingly been handed over to private firms. As a transitional stage, companies may be ‘half-privatized’—local governments owning shares and, thus, having some control over their operation. In line with privatizing housing management companies and transferring management duties to them, another current tendency is to transfer housing management obligations to condominiums (in buildings where these were established). Condominiums can employ people in different positions like cleaners, accountants, electricians, etc., or contract housing management firms for certain services. In the case of smaller apartment houses where the establishment of a condominium is not a necessary or efficient solution, management issues center on a contract agreed upon by the dwelling owners, with an individual selected by dwelling owners to serve as housing services contractor.

In the case of municipal housing, housing stock is usually managed by public housing management companies or by private (semi-private) management companies. If there are municipal dwellings in buildings where condominiums are established, a local government appointee represents the municipal-owned dwelling in a condominium and has the same rights and obligations as the other apartment owners. According to LGHS, in 88% of the municipalities, local government-owned housing is managed by municipal management companies, while in 38% of the municipalities, private management companies do the job. Within one municipality, several management models can be applied. In the largest towns, the management of the housing stock has

more often been given over to private management companies, whereas in small- and medium-sized municipalities the management occurs usually through local government management companies. In some towns, like Tartu, the management company is still based completely on city government capital, but the aim is to transfer the shares to private investors and convert the company to a private management company.

Fair competition between private management companies has not yet developed and the mechanisms of controlling newly formed companies are not yet functional. The most efficient management is provided by non-profit housing cooperatives and condominiums; residents (who are also managers) have a sense of community and capacity for close supervision of social aspects. From the point of view of the tenants, it does not make much difference whether the manager is a public or a private, profit-centered company. From the local governments' point of view, the strategy of privatizing management companies and the increase in competition between management companies has resulted in better management of the housing stock. However, local governments need to have control over the level of maintenance costs. Local government representatives have argued that large-scale management companies work and maintain housing stock more efficiently than small companies. They maintain housing better, whereas small companies deal mostly with 'emergency' repairs.

2.1.2 Municipal Housing Expenditures

The average monthly expenditures of local governments on municipal housing stock management/maintenance/renovation was EEK 4.9 (USD 0.31) per m² in 2000, but the figure varies considerably between regions. According to data from the Statistical Office of Estonia, in Tallinn and its region (Harju county) the expenditure is the highest at EEK 8.0 (USD 0.51) per m². In other counties, the level remains below 5 EEK (USD 0.32) m². According to the Statistical Office of Estonia, public expenditures on municipal housing in 1999 were structured as follows: maintenance formed 46% of total expenditures, repairs 23%, administration 16%, recycling 6%, land tax 3% and other costs 7%. The expenditure on housing repair and mainly renovation (that is completely missing in the structure) should increase considerably to ensure the improvement of housing stock and the present standard of housing.

2.1.3 Municipal Housing Income (Rents)

In practice, 50% of municipalities used their right to introduce their own system of rent regulation, whereas the others have abolished such a system. The average rent in municipal housing does not depend on whether or not the municipality still applies

rent regulation or not, for even in municipalities where there is no regulation, the level of rent has not risen considerably. Tenants in public housing are usually low-income and not able to pay higher rents. Rent regulation is especially relevant for keeping “old” leases in restituted dwellings to prevent massive rent arrears and the eviction of tenants by private landlords. In 2000, about 50% of the owners of restituted housing in Tartu stated that they had the ‘old’ leases in force at a regulated rent (survey data) and the other 50% had new leases with a rent negotiated freely between tenant and owner.

According to LGHS, the monthly average rent in municipal dwellings was EEK 4.2 (USD 0.25) per m² in 2001, while in 1993 the rent was on average EEK 1.1 (USD 0.08) per m². Regionally, the highest rents were in Harju county in 2000, i.e. in the Tallinn region at EEK 5.7 (USD 0.37) per m² and the lowest rents in Põlva and Võru counties in South-Estonia at EEK 1.9 (USD 0.12) and 1.8 (USD 0.11) per m², respectively (Statistical Office of Estonia).

The rental prices are too low in most municipalities to cover the necessary maintenance and renovation costs of housing. On average, in 73% of the municipalities, the current rental income does not cover the costs necessary for housing maintenance [LGHS]. It is, therefore, often subsidized by local governments themselves (with the exception of renovated dwellings where much higher rents are usually introduced). However, rents cannot be raised because of tenants’ inability to cope with rising housing expenses. As the data on the expenditure of municipal housing indicates, several municipalities spend more on municipal housing than is covered by rent. In Võru county, for instance, the average rent in 2000 was EEK 1.8 (USD 0.11) per m², whereas expenditure is EEK 3.0 (USD 0.19) per m². It is estimated by representatives of the local governments that the rent level should be raised to around EEK 11 (USD 0.71) per m² in order to cover the necessary regular maintenance costs [LGHS].

Rent prices are differentiated within a municipality according to:

- Physical condition of dwellings, i.e. whether it is renovated or not (77% of municipalities);
- Costs of housing services like heating, garbage collection, etc. (62%);
- Location and land rent (31%) [LGHS].

As the current rent level in most of the municipalities is lower than so called ‘cost rent’ (i.e. it does not cover the needed expenditure on housing) the following strategies are used:

- Postponing housing renovation (enables the setting of lower rents than cost-rent). In municipalities, where rents are regulated, the renovation of municipal housing and of some restituted houses is usually postponed;
- Financing renovation costs from local government budgets. This strategy is used by the relatively wealthy municipalities, such as Tallinn and, to a lesser extent, also by Tartu and other cities;
- Application of rental costs in renovated municipal dwellings.

The *private rental sector* in Estonia that could be directly compared to the ‘for profit’ rental sector in Western Europe, is small in size. It consists of individual privatized dwellings that are rented out by private individuals, or dwellings in rental apartment houses restituted to former owners (the construction of new privately-owned rental apartments is economically unattractive). The ‘for profit’ rental sector is more developed in economically rapidly developing cities like Tallinn, Tartu and Pärnu. The rent level in this sector is determined mainly by the location and amenities of the flat; it often differs significantly from rental prices for the same dwellings in municipal ownership.⁹

Although the Housing Act declares that housing rent should include costs for housing maintenance and renovation, housing services, administration and may include up to 10% owner-profit, in reality many municipalities, as well as owners in restituted housing, subsidize the rent. Most municipalities are unable to carry out the repairs necessary to retain even the current standard of living (it is problematic even to cover only maintenance costs and costs on ‘emergency repair’). Therefore, the physical quality of municipal dwellings is deteriorating rapidly. The management of local government housing in most of the municipalities is still inefficient. The largest municipalities have raised the rent in their dwellings closer to the market level, but, even there, the level should still be raised at least by an additional one-third. Modernization or thorough renovation cannot be carried out in municipal housing without additional public subsidies.

Moreover, raising rents in municipal and social housing increases the dependency of tenants on social welfare. As long as the social benefit system does not function effectively, there will be a rise in rent arrears, for tenants in municipal housing belong mostly to lower socio-economic status groups. The question of whether to subsidize rent or to pay more and higher social subsistence benefits, is not so relevant in Estonia (in terms of economic efficiency) because the municipal housing stock is very small in size. However, if regulated rents are still to be applied (on a lower than cost-rent level), private owners must be subsidized by public authorities.

2.1.4 Rent Arrears

In line with rising rent levels and housing costs, rent arrears in public dwellings have risen since 1990. A few tenants have been evicted. The average sum of rent arrears as a percentage of the gross rent roll was 12% in 2000 (LGHS). There are different reasons why people fall into rent arrears. In some cases, tenants do not pay rent because they have no other option, but a large share of tenants are ‘principal non-payers’ as they actually do have the capacity to pay (from social benefits or other sources). Therefore, rent arrears are not only caused by rising rent levels and the economic difficulties of tenants, but also by traditions from the previous regime. They also existed throughout

the Soviet period, when rent levels were highly subsidized. Back then, arrears were forgiven regularly in the case of some groups and, in fact, many households did not pay rent for several decades. An average period of rent arrears in municipal housing stock is about 1.5 months.

Box 4.2

Successful Tools Applied by Local Governments to Decrease the Rent Arrears

Tartu town government has successfully reduced rent arrears by systematically contacting and negotiating with tenants who are in arrears. Short- or long-term payment schedules have been set up to provide more realistic opportunities to pay back the debts for tenants with economic problems. Also, more people were employed as negotiators in disputes with tenants. As a result, rent arrears have been reduced.

Another tool used by the Tartu town government was setting up a grace period (e.g. a month) during which tenants in arrears did not have to pay overdue charges.

SOURCE: Interview data.

Local governments have used various tools to decrease rent arrears (LGHS, interview data):

- Taking cases to court (41% of municipalities use this option);
- Limitation of housing services, repairs are not carried out in a dwelling or building where there are high rent arrears (6%);
- Improvement of the quality of municipal dwellings and client services (6%). This option can improve the situation when tenants do not pay rent because they are not satisfied with the housing quality and services they get from municipality and intentionally do not pay rent to force an owner to carry out necessary housing repairs;
- Negotiation with tenants in arrears to set up short- or long-term payment schedules (6%);
- Setting up a grace period (e.g. a month) during which tenants in arrears do not have to pay the overdue charges (6%);
- Selling off dwellings with rent arrears (6%);
- Revoking leases or threatening eviction (12%).

The importance of the problem of rent arrears depends on the size of the municipality and the local government's budget. The strategy of calling in the debts through judicial action would not help much unless there were cases where tenants have actually higher

(illegal) incomes than reported and they have not paid rent intentionally. A relatively good practice is to give tenants a more realistic chance to pay back their debts by setting up a long-term payment schedule and waiving the overdue charges to certain groups. Most rent arrears are short-term, up to three months. The housing economy thus gives ‘credit’ to those whose household budget is very tight. Arrears increase during the winter period, when heating costs are high. These are usually paid back during the summer period.

2.1.5 Vacancies in Municipal Housing Stock

The total share of municipal housing stock in Estonia is very low and insufficient to satisfy the real need. Therefore, most municipalities do not have problems with vacant dwellings. However, according to LGHS, the average vacancy rate defined as the percentage of voids in the total municipal housing stock at the end of 2001 was 9.4%¹⁰. In a way this figure is misleading. Though voids should not include dwellings unsuitable for living, many municipalities probably counted them this way when completing the questionnaire (they did not read the instructions carefully). The existing databases of municipal housing could even contain demolished or partly demolished dwellings. According to Census 2000, the structure of the occupancy of total housing stock was as follows: 86% occupied; 5% reserved for temporary or seasonal use; 6% vacant and 3% unknown (in this case, however, a different definition of vacancy has been applied). The structure in municipal housing was as follows: 82% occupied; 3% reserved for temporary or seasonal use; 13% vacant and 2% unknown. The average rent loss through voids, defined as a percentage of gross rent roll in 2000, was 3.5%. The options municipalities have used to reduce the vacancy problem are [LGHS]:

- Privatization of housing (e.g. in the form of auctions) (12% of municipalities use this option);
- Improvement of housing quality and housing services (6%);
- Ensuring accessibility to dwellings (6%).

Vacant dwellings are especially a problem in regions where the housing market is passive (such as the towns in northeastern Estonia). In this case, it is also difficult to privatize municipal flats. Many families who privatized municipal dwellings in these areas are now ‘trapped’ in their property—if they want to move they cannot sell, as there is no market for the apartments. In more active markets, it would be beneficial to privatize dwellings of relatively low quality and high expenditure. If vacancies exist and there is no demand for municipal housing, yet there is pressure for owner-occupancy, privatization of hard-to-manage housing stock is a good option.

2.1.6 Allocation of Municipal Housing Stock

The tenants of municipal housing are, to a large extent, the 'old' public tenants who for various reasons did not privatize their apartments. Although the legislation gives quite a special definition to 'social' housing, in reality the difference between municipal and social housing is very vague. All municipal housing stock is targeted to the most disadvantaged social groups, i.e. the whole stock is more or less a social housing (those households that did not privatize their housing tend to belong to same lower income groups). According to the percentage of municipalities where these criterion for housing allocation are utilized, the preferred groups in the municipal/social housing allocation are as follows [LGHS]:

- Households who have lost their dwelling as a result of an accident (fire, etc.) or some other catastrophe or through demolition (94%);
- Tenants in restituted housing (75%);
- Multi-child families (75%);
- Households who have been evicted from privately owned dwellings because of rent arrears and who are not capable of finding other accommodations by themselves (69%);
- Low-income families (69%);
- Civil servants (63%);
- Other groups (19%).

In 23% of the municipalities, several kinds of allocation systems for municipal housing are in use. 56% of the municipalities have a waiting list for municipal housing. For instance, in the municipality of Tartu, there were 150 persons on a waiting list at the beginning of 2002 (interview data). In Tallinn, about 4,300 people were on the waiting list for a municipal dwelling (mostly tenants in restituted housing) and 600 for a social dwelling (daily newspaper 'Postimees'). The length of the waiting period depends on a household's situation. If a household has lost its home in an accident, they will usually be provided with a dwelling immediately, if necessary. For other groups, the waiting period varies to a large extent in different municipalities (up to several years) if they qualify at all for a municipal dwelling (this is decided by the local council) or if it is possible at all to provide municipal housing.

Due to the high rate of privatization, the current local government housing allocation criteria and the low reputation enjoyed by municipal housing, tenure has become biased towards lower socio-economic status groups (Table 4.8) [Statistical Office of Estonia]. Higher income groups usually do not occupy municipal housing. This can be an exception when higher income tenants in restituted housing are allocated to municipal housing. Then they usually occupy renovated municipal flats where the rent level is higher than for the average municipal flat. The structure of owner-occupants and tenants

in the public rental sector differs on the basis of household structure. Whereas larger households (couples with or without children, two- and three-generation households) tend more to occupy housing that they own, one-person households (especially working-age individuals) and single-parent households are disproportionately prevalent in rental housing. From the groups listed, one-person households are, to a small extent, more prevalent in public housing than the other groups [Statistical Office of Estonia].

Table 4.8

Tenure Types by Income Quintiles in Estonia [in % from Total of Households]

	Income Quintile				
	I (Lowest)	II	III	IV	V (Highest)
Owner-occupied	77,6	83,5	85,5	83,3	84,3
Public rental	6,5	5,9	4,5	3,7	3,0
Private rental	10,3	7,5	7,3	9,5	8,8
Other*	4,8	2,7	...	3,4	3,3
Total [%]	100	100	100	100	100

* ...—means that the share is negligible (statistically insignificant).

SOURCE: *Living Conditions Study in Estonia in 1999* (2000: 112).

The current municipal housing allocation system is often not efficient. Not all those who need municipal housing have access to it and, through allocation to some groups, relatively wealthy households are subsidized. Many low-income families live in cottages designated for seasonal occupation that lack even a proper heating system. In Tartu, the homeless population is approximately 300–500; for Tallinn the number is not known. These people have access neither to private nor to public rental housing. Many higher income households who lived in restituted housing have been assigned municipal housing, though they did not need to occupy public housing (where rents are considerably lower than in private rental market) for economic reasons. With the current legislation it is difficult to terminate leases of municipal housing once the housing has been allocated to a household. For instance, the incomes of current tenants could rise to the point that they no longer qualify for social housing, yet, at the same time, households remain on the waiting list, in need of a municipal rental flat. In general, however, current allocation principles favor social segmentation in the public housing, i.e. the concentration of lower social status groups. Public housing stock is often concentrated in the run-down housing districts of wooden tenement housing (especially cheaper non-renovated flats).

2.2 Compensation for Housing Costs Through Subsistence Benefit

The purpose of legislative change in the principles of compensating housing costs was to make the system more efficient and cut governmental expenses on housing. The proportion of the compensation of housing costs from the total amount of social benefits paid from the state budget has diminished more than three times during the last six years. Of the total sum of social benefit public expenditures (including welfare, subsistence and housing allowances), 79.4% was spent on housing allowances in 1994 (EEK 232.8 million, USD 16.8 million) whereas in 2001 only 20.1% was spent for the same purpose (EEK 71.4 million, USD 4.2 million).

In 2001, a total of 70,417 households received subsistence benefits, which accounts for 12% of the total number of households (statistics for households that receive benefits are available only from 2001 and, thus, it is not possible to compare the data with previous years). The average benefit paid per application increased from EEK 491 (USD 39.5) in 1997 to EEK 797 (USD 47.4) in 2001.

Households with children make up the largest proportion of the recipients of subsistence benefits (in 2000, they accounted for 46% of recipients). As is apparent from Table A4.2 in the Appendix, the most frequent recipients of subsistence benefits are households with a member who is unemployed for an extended period or unemployed and looking for a job. The payment of subsistence benefit is not directly related to the number of children in a household. Families with one child need state assistance even more than others, as many of those families have only one parent or a family member unemployed. Applications from families with unemployed family members accounted for approximately half of all the approved applications from families with children.

Today's system of subsistence benefits falls short of the ideal and is dysfunctional. It does not support households to a sufficient degree in paying for their housing costs. For instance, in 2000, 2.5 times less was spent on the compensation of housing costs from the total sum of benefits than in 1996 (when the support was paid in housing allowances). The amount of benefits that cover housing expenses should be raised in order to serve its purposes and ensure its effectiveness. The overall level of subsistence benefits should, thus, be raised. The distribution of subsistence benefits should also be modified as many households that need the compensation are not eligible for it. At the same time, benefits are distributed to households that do not in fact need them. The benefit should be directed to all tenures and it should allow people to pay rent in the private rental market as well. Today, many tenants in private rental sector do not have an official tenancy agreement and have no way of receiving subsistence benefits (many owners are not interested in official contracts because they want to avoid taxes). According to Kuddo (2001), about 63% of subsistence benefits are paid to 'non-poor' households, i.e. the benefit system does not fulfill its objective (of supporting low income

households in compensating costs on the housing, food, etc. primary necessities). This is because many households do not report their real incomes and local governments have no right to refuse payment if necessary documentation is provided by an applicant. Local governments should have greater freedom to decide over the recipients of subsistence benefits.

2.3 Local Housing Policy Strategies and Objectives

Local governments are obliged to establish long-term development strategies and short-term development plans that specify the aims and programs of the development of municipalities. Besides a general development strategy or development plan, each local government can also establish policy plans for special areas. Most of the municipalities do not yet have their own housing development plans or strategies in the form of independent documents. Only the municipalities of Tallinn, Tartu, and Pärnu have approved such plans. A few housing-related objectives are, however, stated in the general development plans or strategies of many municipalities. Of the larger local governments (municipalities with more than 5,000 inhabitants), 41% stated that their municipality has approved a housing policy strategy, but only half of them admit that the housing policy objectives are clearly defined in it (LGHS). Housing policy is an area in local government that is not considered a priority. Housing problems have become a 'burden' for local governments and the main goal is to transfer housing-related responsibilities to the private sector. Housing policy objectives, which half of the larger municipalities have declared in their housing policy strategy, can be divided into three groups (Internet pages of local governments):

- 1) To establish an efficiently functioning social/municipal housing stock;
- 2) To support/encourage construction of new private housing through the planning process and the development of infrastructure;
- 3) To assist the establishment and management of condominiums in multi-apartment houses.

The results of the LGHS show that the most quoted housing policy objective is the establishment and support for management and renovation of condominiums (65%). The second most frequent goal was the support for new private housing construction (through planning, infrastructure building, etc.) (41%). However, if we take into consideration only the first most important goal stated in LGHS (objectives should have been ranked according to their importance) the most frequent goal evaluated as the most important one was, surprisingly, housing privatization (even though privatization is almost finished).

Box 4.3

The Goals of Local Government Housing Policies Stated in Local Governments' Development Plans (Available via Internet) at the End of 2001
(Listed in Decreasing Order of Importance)

- *Increasing the social and municipal dwelling stock, the renovation of the present municipal housing fund and the modification of allocation principles*
- *Planning and preparation of plots for construction of new private housing, initiation of said construction in cooperation with private firms*
- *Establishment of condominiums, support of their management and renovation projects*
- *Renovation of housing stock, the system of financial opportunities (including preparation of standard renovation solutions for buildings by the State and local governments)*
- *Improvement of loan opportunities in the housing market for housing purchase and construction*
- *Privatization of low-quality dwellings in municipal ownership*

As to the financial resources for the implementation of these goals, municipalities plan to use resources from their own budget and the state budget, as well as from various private and public funds.

The established goals of housing development are usually couched in a very abstract and general way, while clear programs and financial resources for their implementation are not specified. In the LGHS, local government representatives had to choose the objectives which corresponded best to their government's activities (from the list provided) according to the respondents' own evaluation and not depending on whether or not the municipality had approved the housing policy goals. The following goals were mentioned among the three main housing policy objectives (the objectives are listed in decreasing rank of importance):

- Solution/mitigation of housing problems of people with special needs (disabled people, etc.) (60% of the municipalities);
- Provision of dwellings for the homeless (50%);
- Solution/mitigation of housing problems of elderly people (41%);
- Improvement of housing accessibility to low and average income people (35%);
- Improvement of housing conditions (including energy efficiency) (35%);
- Promotion of owner-occupancy and/or construction of private housing (24%);
- Promotion of tenant participation in municipal housing management (12%);
- Prevention of social segregation (6%);
- Promotion of tenant mobility (in the public as well as in the private sector) (6%).

This shows that the housing policies of the local governments are mostly concerned with solving the problems of special marginal groups in society (such as the disabled and homeless) and economically disadvantaged groups (the elderly and unemployed). Some governments were also concerned with construction and improvements in existing housing stock. Just a few local governments mentioned the last objectives on the list.

2.3.1 Development of Municipal Housing Stock

After 1994, construction of new municipal housing halted. Only a few blocks of flats (which were in municipal ownership and not privatized) have been renovated and converted to 'social housing' in Tallinn. However, a new housing policy strategy approved by the Tallin municipality means the restoration of new municipal housing construction (Box 4.4).

Box 4.4

Municipal Housing Program in the Municipality of Tallinn

The municipality of Tallinn is planning to extend the municipal housing stock by 5,000 apartments (including 2,000 newly constructed dwellings) in Tallinn between 2002–2007. The primary goal of the program is to solve the problems of tenants in restituted housing by 2008. The total cost of the newly constructed dwellings will be EEK 1.2 billion (USD 67.8 million). In the financial blueprint, 75% is to be covered by the local government's budget and 25% from the state budget. In addition to the 2,000 newly constructed dwellings (400 dwellings will be built every year), the municipality will renovate the existing municipal flats. A total of 1,700 households will be allocated to vacant existing municipal flats (inherited or donated to the municipality) or move to the flats rented in the private sector by the local government. In addition, 500 households will receive a stipend from the municipality to solve, it is hoped, their housing problem by themselves.

According to the preliminary plans, the average size of the new flats will be 50 m² with a rent of EEK 20 (USD 1.19) per m² plus costs of utilities around EEK 30 (USD 1.78) per m² (i.e. for 1-room apartments, tenants will have to pay approximately EEK 1,200 (USD 71.3) per month).

Tenants from restituted housing will have the right to privatize these apartments after five years. The privatization opportunity will not be given at once to prevent profiteering with dwellings (which can be sold on the market). It is hoped that providing these new municipal dwellings will reduce the housing deficit in the capital and slow down further housing price and rent increases. According to prognoses, the private sector will build about 3,000 dwellings by 2008 (600 dwellings per year). A share of them will be developed within the public-private partnership programs.

Daily newspaper 'Postimees'

www.postimees.ee

The modification of the structure of local government housing involves the conversion of as many housing units as possible into ‘social housing’ and the privatization of low-quality municipal apartments in buildings in which most of the apartments have already been privatized. Local government representatives argue that this strategy helps to raise the efficiency of municipal housing management (it is rather difficult to manage social dwellings that are located in different buildings all over the municipal territory). This development should be monitored carefully, as the concentration of social housing will raise many problems as well.

The principles of allocating social and municipal housing are being modified and elaborated, with particular attention being paid to the problems of tenants in restituted housing. These tenants form a priority group in the housing policy strategies of many municipalities (they have preference in the allocation of municipal housing imposed on local governments by the central legislation). Some municipalities have cooperated with the third sector (non-profit sector) to accommodate people with special needs. Local governments mentioned this as a successful strategy (Box 4.5).

Box 4.5

Good Practice to Accommodate People with Special Needs

In the Tartu municipality, the project ‘Our home,’ a housing service for the mentally disabled, is carried into practice by the non-profit organization ‘Iseseisev elu’ (‘Independent life’). It is a so-called group accommodation where three mentally disabled people share a 4-room flat belonging to the State, the municipality or the non-profit organization. The non-profit organization supports them with services (they are taught how to live independently, cope with living expenses, etc.). Likewise, similar projects are being carried out on the initiative of the Ministry of Social Affairs in other municipalities.

Another example is homes for young people. This is a half-institutionalized social service where children from orphanages and boarding schools adapt to living independently (they are taught how to cope with housing and other living expenses, how to look for a job, etc.). In Tartu these homes are managed by a local government; in Pärnu and Tallinn by non-profit organizations.

SOURCE: Interview data.

Social and municipal housing programs are directed towards special social groups and the most disadvantaged individuals (tenants in restituted housing, the lowest income groups, the disabled, etc.). In the Tartu municipality, it has been claimed that a sufficient social housing stock for the city should comprise about 600 dwellings, which would mean that there is a need for a maximum of only 100 additional social dwellings (interview data). Local government representatives argue that the management costs would

be lower if social dwellings were concentrated in single-purpose buildings. However, though this strategy may seem like the economically efficient option in the short term, it may not be efficient in the long run. If low-income groups are concentrated in one building, there is a higher probability that rent arrears will arise and it will be impossible to carry out maintenance work. The process can also result in unexpected social consequences. If socio-economically disadvantaged groups are physically concentrated, a neighborhood will become more stigmatized, the groups will be more frequently in contact with each other, having fewer possibilities for contact with people outside their own social group. This would have a negative impact on their chances in the labor market (as individual contacts occur increasingly with people from their own status groups) and they would become more separated from the 'mainstream' of society and, therefore, socially excluded. It would be much harder to remedy the consequences than to prevent this phenomenon from spreading.

The strategy of selling municipal flats to low-income people cannot be deemed an economically good option. Low-income households that purchase apartments are not economically capable of renovating their housing (privatized apartments are usually of relatively low quality). A better strategy would be to privatize them to better-off groups who would be more likely to make investments. The privatization of dwellings to tenants from restituted housing is not always an efficient process either. These tenants are often taken advantage of offers made from private real estate agents; after privatization the dwelling is resold at a profit.

Box 4.6 summarizes the positive and negative impacts of social/municipal housing development. Based on the experiences of Western countries with industrialized economies and the negative consequences that have become evident, current liberal developments and the marginalization of social housing stock cannot be entirely justified. The management of municipal dwellings could partly be transferred to non-profit organizations. Also, the possibilities to transfer the ownership rights to, and pursue the new rental housing construction by, non-profit organizations could be considered an appropriate and efficient alternative to municipal housing. The development of a private rental housing sector with reasonable rents could be better encouraged by local governments (through grants, subsidies, tax policies and other instruments). The establishment of a solid rental housing stock that would provide an accessible alternative to owner-occupancy should become a priority in the field of housing policy for local governments.

Box 4.6

Positive and Negative Impacts of Social/Municipal Housing Development

Positive Impacts

- *Helps to keep the local governments' expenditure low (at least in the short run)*
- *Encourages owner-occupancy and individual responsibilities for the housing stock and also boosts private investments in housing sector*
- *The modification (restructuring) of the social housing stock through new construction or reconstruction/modernization will have positive effects on housing management: the costs will be lower as the new and also modernized apartments will be more energy-efficient, smaller, etc. (thus, the regular housing costs and costs on renovation will be lower)*

Negative Impacts

- *The concentration of low-income groups in one building will raise the risk of rent arrears, it will become more difficult to carry out renovation. Also, the concentration of low-income people may have a negative impact on the neighborhood (the reputation and quality of the neighborhood), on socio-spatial segregation and the neighborhood may affect negatively the life chances for these social groups who live there*
- *As the marginalized public housing sector encourages owner-occupancy, the private sector consists of owners from various socio-economic backgrounds. They vary in an ability and willingness to invest in renovation and modernization of their housing. A share of housing owners to whom the property was restituted (many of them got several properties back in different towns), have no clear vision what to do with it*
- *In the case of large investors in the private sector (companies, large-scale property owners), capital will be accumulated. There is no guarantee that the profits will be reinvested in the housing sector or that capital gains will be used for housing development purposes*
- *Through allocating tenants in restituted housing to new or existing municipal dwellings, local governments 'subsidize' this group. As the group of tenants in restituted housing consists of people with various incomes (thus also wealthy households), governmental policy cannot always be considered economically effective (the same applies to providing favorable loans for housing purchase).*

2.3.2 Support for New Private Housing Construction

To encourage the construction of new housing, local governments have implemented, and/or proposed, various programs.

The project '*Home for Young Families*' was a widely publicized housing program organized by the State and some local governments several years ago. The initial plan of the project was to choose a few rural areas in peripheral regions and privatize them on favorable conditions to young families. It was expected that young families would

move to these areas and start re-energizing local economic life. In fact, this project was never put into practice. In some cases, the land was privatized to young families (e.g. the cost of one plot was EEK 28,000 (USD 1,664.7) of which EEK 25,000 (USD 1,486.3) was supported by the State.

Some local governments have planned, or already implemented, private-public partnership projects that aim to increase new housing construction and improve access to new housing. Local governments establish detailed plans for selected areas and build technical infrastructure, free of charge, to reduce property prices and to encourage construction of private detached houses (Box 4.7).

Box 4.7

Good Practice of Public-Private Partnership Encouraging
the New Housing Construction and Improving Access to New Housing

The municipality of Tallinn has generated public-private partnership projects to reduce the scarcity of living space in the city. First, the city government announced a tender for the right to build on a given construction plot. The private company that offers the best balance between construction price and quality and a good local district plan, is selected to realize the project. From its budget, the municipality covers the costs of the land, zoning and infrastructure to keep the property price lower than the market price. The private company is obliged to sell the dwellings at a price not exceeding the level stated in the terms agreed upon by the parties. While the market price for newly constructed detached houses is approximately EEK 10,000 (USD 594.5) per m², the price will remain approximately EEK 7,000 (USD 416.2) with municipal involvement. Other selling conditions are decided by the private developer, such as the amount of the first installment payment, etc. The private company carries the risks. In the future, preference in purchasing the dwellings will likely be given to tenants in restituted housing and families with several children.

SOURCE: Interview data.

The public-private partnership in new housing construction has been a good practice as it helps to raise the level of new housing construction to a fair extent and improves the access to new housing, creating more choices for households (especially for young families). The projects are effective if they involve only small housing quarters located close to other residential districts. The problem is that the new settlements will be homogenous in terms of the residential structure (consisting of wealthy young and middle-aged couples or families) resulting in socio-spatial differentiation (households are in the same life cycle and have particular needs for services that will change over time, e.g. the need for schools, kindergartens, etc.) Though this improves access to new housing for young families, other advantages should be directed towards them as well, e.g. for

the purchase of existing apartments. Only a small group of well-off young families can afford to construct their own detached house (even if the construction price is reduced due to the public-private partnership) and most young households have difficulties in access to housing. To compensate for the polarization between new residential areas in the suburbs and the cores of cities, initiatives should also be directed toward renovating the existing housing stock.

2.3.3 Initiatives to Condominiums and Housing Renovation

To encourage the establishment of condominiums and to support their management and renovation programs, some local governments have applied, or are planning to apply, the following measures (LGHS, interview data):

- Providing financial support for the establishment of condominiums (up to EEK 2,000 (USD 113) per association). For instance, in Tallinn, a project was launched in 2001 by the local government aiming to support the creation of condominiums financially and to motivate them to assume administration and management obligations. A stipend to this end is payable on a one-time basis (Box 4.8);

Box 4.8

Good Practice for Supporting the Establishment and Better Management of Condominiums

The municipal government of Tallinn has supported the establishment of condominiums financially. To ensure the better management of housing stock, the local government has supported condominiums with the following financial transfers (subsidies):

- 1. Establishing condominiums—EEK 2,000 (USD 113)*
- 2. Taking over the administration and management responsibilities—EEK 3,000 (USD 169.5)*
- 3. Participation in a training course—in the amount of EEK 2,000 (USD 113) per condominium*

The training courses are given by the Estonian Union of Cooperative Housing Associations and the Association of Estonian Facilities Administrators and Maintainers.

This support mechanism has had good results and has been widely used by condominiums. The city government controls the disbursement of the financial assistance.

SOURCE: Interview data.

- Providing financial support for the participation of condominiums in special training programs;
- Providing direct financial support or loans (or mediating loans) for modernization and sustainability projects in housing estates—e.g. for the installation of automatic heating stations (Box 4.9);

Box 4.9

Good Practice for the Modernization of Heating Systems
in High-rise Housing Estates

In 1992, the central government and the European Reconstruction and Development Bank (EBRD) launched a project for capital investments in housing energy consumption. The loan was given for the replacement of defunct heating systems. The loan was distributed to municipalities. The municipality of Tallinn borrowed DEM 5 million for the reconstruction of heating stations. The loan is to be repaid between 1996–2003.

A similar, USD 5 million loan was taken from the International Reconstruction and Development Bank (IBRD) by the central government. The municipal enterprise Tallinna Soojus Ltd, which is responsible for producing heating energy in Tallinn, was selected by the municipality of Tallinn to implement the modernization project. This loan is to be paid back between 2000–2009. The municipal government contracted district governments in Haabersti and Mustamäe to purchase and install heating stations and various companies were contracted to perform modernization. The finances for loan repayment come from an additional charge added to heating energy costs. Additional costs are calculated from the amount of investments that are made in different buildings (calculated by district governments).

If the buildings or dwellings were in municipal ownership, the municipality had to pay the modernization costs from the tenants' rent; if the dwellings were privatized, apartment-owners paid the costs as surcharges to regular maintenance costs. According to the contract between Tallinn city government and Tallinna Soojus Ltd, the municipality had to cover the modernization costs with EEK 10.5 million (USD 593,495.3) from the municipal budget during 1994–1996.

SOURCE: National and local government legislative acts, contract between Tallinn city government and Tallinna Soojus Ltd.

- Initiating campaigns which are aimed at improving the quality of the private housing stock: in Tallinn, this kind of project was carried out with the purpose of initiating large-scale renovation projects in the high-rise housing estates. In Tartu, the renovation campaign 'The City of Good Colors' was initiated by the Tartu town government by which the property owners could purchase renovation materials (paint, in particular) and services and take out loans under favorable

conditions. The project was carried out in cooperation with the private sector (Box 4.10). A similar project was also carried out in Pärnu and some other small towns, but with less success.

Box 4.10

Good Practice of Motivating Households to Renovate the Housing Stock

The Estonian Union of Cooperative Housing Associations, in cooperation with the city government of Tallinn, has initiated the renovation project in large housing estates with the purpose of motivating private individuals to carry out large-scale renovation projects in the housing estates of Tallinn (renovate facades, improve energy sustainability, etc). The city government supports the program from its budget resources. In cooperation with the private and public sector and the non-governmental organization, the following activities will be carried out:

- 1) Participating condominiums will be selected (based on their own application)*
- 2) Physical state of apartment buildings will be assessed by specialists and the results will be discussed with representatives of the condominiums to set up the work schedule*
- 3) The best financial and construction arrangements will be found to achieve optimum conditions for the condominiums*

It is planned that the condominiums will take out loans in the amount of about EEK 50-60 million (USD 2.8-3.4 million). The interest rates will be around 6.6% for 5 years and 7.4% for 10 years (the interest rate is reduced to such a level using various instruments). The intention is also to exclude the interest rate from loans taken for housing renovation from taxable income (which is 26%). The maximum loan amount per m² of living space is EEK 1,000 (USD 56.5). Extra favorable conditions will be made available to households that are in economic difficulties for paying back the loan (as the population in the housing estates consists of many households in economic difficulties). So far, the project is in an initial stage and a pilot project will be tested in 2002. The results will show whether the project will be carried out in the future.

SOURCE: Interview data.

The strategies of supporting the establishment of condominiums (by covering the establishment costs or by helping with the documentation, explaining the establishment and management process in housing estates and other apartment-houses where condominiums have not yet been formed) and the strategies aimed at supporting the renovation and modernization activities of condominiums could be considered effective ones. Also, the activities aimed at supporting other private owners in renovation (those who live in detached or other small houses where there is no need for an condominium and in buildings where associations have not been established yet) are important for an efficient housing development.

2.3.4 Other Activities of Local Governments

Besides the above-mentioned main objectives and programs of local governments, several of them have also initiated or been involved in other housing-related projects. For instance, the Tartu municipality has applied the following three methods for supporting tenants in restituted houses:

- 1) Resettlement support in the amount of EEK 2,000 (USD 113) which is paid to every tenant, regardless of where or to which tenure they are moving;
- 2) Favorable housing loans available to these tenants (interest rate is 8%, the subsidization of one fifth of the loan);
- 3) If the owner of restituted housing agrees to support a new housing purchase for a tenant with the amount of EEK 40,000 (USD 2,300) the municipality adds the same amount and the tenant pays the rest. This method is not functioning as effectively as expected and there has been much profiteering in order to get the support from the local government. Housing exchange has also been supported (or proposed) for elderly people seeking smaller dwellings with low regular expenses.

Supporting the elderly in reallocation is a good option as this group often over-consumes their housing. For different reasons, however, they may be unable to find new housing by themselves. Another option proposed by the pensioners of Tartu could also be considered a good one as long as speculation on property is avoided. Pensioners suggested that they could give the ownership rights of their privatized dwelling to a local government on condition that the local government: 1) Provide them with a smaller rental flat and guarantee occupancy right for the rest of their lives and; 2) Pay the difference between the price of the dwelling and the rental price in the form of monthly additional payments appended to their pension. The local government has not yet taken a position on this proposal.

Municipalities and administrative district governments have increasingly started to consider housing development issues in establishing long-term goals for area development. For instance, a general plan was established for the Supilinn district in the city of Tartu that aims to improve the environment in the area. Supilinn is a low-quality pre-WWII wooden housing area that needs financial investments. The general plan establishes foundations for the development of the area, by planning public as well as private investments there and promoting the influx of wealthier demographic groups (Box 4.11).

Attempts are also being made to improve the quality of the Kopli area in the Northern Tallinn administrative district. It consists partly of pre-WWII housing that has depreciated greatly and partly of low-quality socialist high-rise housing estates (see Box 4.12). It could be argued, however, that the approach chosen for the Kopli area is not the best way to deal with the problem. This strategy does not solve many social

problems, as the ‘evicted’ groups do not have anywhere else to live. Nor does it encourage further private investment in the area. What is suggested instead, is improving employment opportunities and providing social support to enable problem groups to remain in their flats. It is important to raise community morale, but a strong police presence would have a negative impact and raise resistance towards authorities among the residents. The public sector should encourage new housing construction and raise the environmental quality in the area.

Box 4.11

Good Practice of Area-based Development in Tartu Municipality

The general plan for the Supilinn area prioritizes the development of new, small-unit housing in the area’s vacant lots (large lots will be subdivided, if the owner agrees to sell) and improvements in physical and social infrastructure (roads will be improved by the local authority, etc.). The development does not foresee municipal investments in housing, only private capital. To conform with the existing architectural environment, only 1–3 story buildings will be allowed.

The local government will invest in improving existing roads, adding new roads, new bridges, infrastructure, the renovation of public recreation areas and a new kindergarten.

SOURCE: www.tartu.ee

Box 4.12

The Development Program Initiated by the North Tallinn District Government in the Tallinn Municipality to Improve the Quality of Life in the Kopli Area

To improve the environment in the Kopli area, the local authority (district government) has started to improve security in eight municipal blocks of flats that have a high crime rate (24-hour police guard). Only people with special permission are allowed to enter the buildings. Meanwhile, emergency repairs will be carried out. Leases will be negotiated with long-term residents and those who have sufficient financial means. Those who cannot afford to pay rent and communal services, or have a disorderly history, will be reallocated to special places. Vacant rooms will be renovated and distributed to those on the municipal housing waiting list. In this way, the district government expects to reduce crime in these neighborhoods, reduce the number of drug addicts and alcoholics and achieve greater security. It is expected that tenants will establish associations and continue housing management by themselves. The Tallinn municipal government has allocated money for police patrols in the neighborhood and for the emergency renovation. To support the police activities in the area, the municipality of Tallinn has allocated living space for police in the area. The renovation program has already begun to be implemented. The problem groups will possibly be assigned shelter housing adjusted for these purposes.

SOURCE: Daily newspaper Postimees, www.postimees.ee

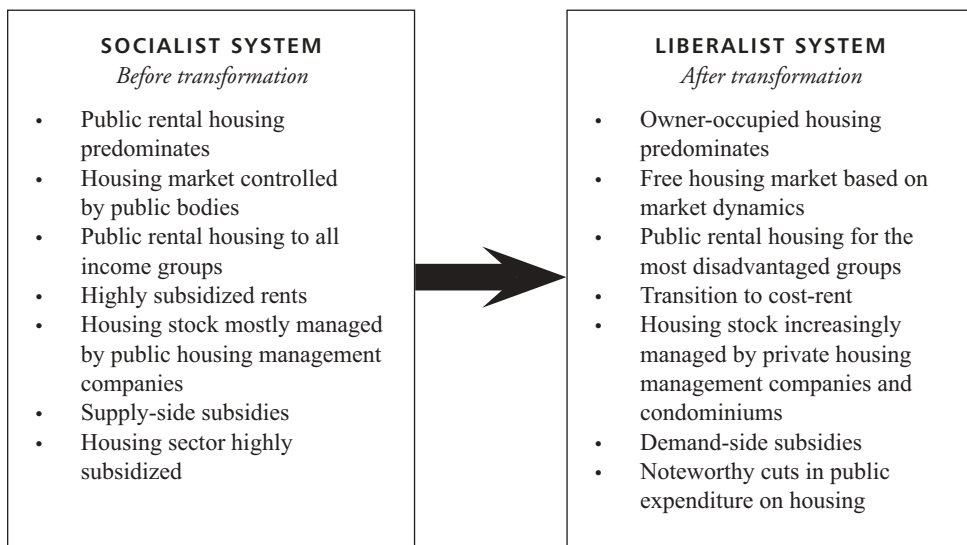
In spite of the established goals, most municipalities are not investing in the housing sector from their local budgets. In most cases, housing problems are perceived to be the concern of individual households, not of local governments. The problems arising from ownership reform should be solved through close cooperation between the State, local governments, private sector and non-governmental organizations. Today, the central government is imposing too many responsibilities on local governments, without sufficient involvement in solving any of these problems by itself. The only efficient local housing fund operates in the Tartu municipality, supporting tenants and owners in restituted housing through favorable loans (for housing exchange or renovation). The establishment of efficient housing funds by larger local governments could be a good strategy for implementing housing policy goals.

3. CONCLUSIONS AND POLICY RECOMMENDATIONS

Housing policy in Estonia has gone through radical reforms since 1991. New housing policies, influenced by an overall liberal-minded political environment in the country, have focused on liberalizing the housing market, placing it in the sphere of free market relations and limiting the public responsibilities and investments in the housing sector. The main housing reforms that have taken place in Estonia are summarized in Figure 4.3.

Figure 4.3

Main Housing Reforms that Have Taken Place in Estonia Since 1989



Today, the main objectives of housing reform have been achieved. Ownership reform has almost been completed. As a result of the extensive privatization and restitution process, the share of public sector housing has decreased from 61%, in 1992, to 6%, in 2001. Using the extremely favorable privatization opportunities, over 90% of previous public tenants have become the owners of their own homes. The statistics show that about 84% of households live in owner-occupied housing; 10% in the private rental sector and 6% are public tenants. Compared to other European countries, the proportion of owner-occupied housing is quite high (in the EU, the average tenure structure is as follows: Owner-occupancy—56%, private rental—21%, social rental—18%, housing cooperatives and others—5% [Balchin, 1996]. The rental sector—public as well as private—has become marginal. The rent level is relatively low in the rental housing stock, which is of very low quality and higher rents characterize those housing units that are of better quality and in better locations.

The public sector has transferred ownership responsibilities to the private sector and ended direct subsidization of the housing sector. The main policy instruments are aimed at increasing demand in the housing market. Low-income families are paid the subsistence benefit to remunerate (entirely or partly) housing costs and the efforts of special groups (young families, tenants in restituted housing, condominiums, etc.) to acquire housing in the market or renovate it are supported by national and local government policies (through loan guarantees, tax policies, etc.). Minor supply-side policies include public-private partnership programs; in the capital city, a new municipal housing construction program is being created.

The aim of the reforms in the sphere of rental housing has been the transition to the cost-rent system, i.e. the rise in rent prices to a level where it can cover the necessary expenditures on housing. However, many local governments still subsidize rent or postpone necessary expenditures on housing (a more likely scenario). About half of the municipalities still regulate the rent level. This applies to restituted housing, where 'old' leases are still in force and in the municipal housing (or a part of municipal housing). Regulated rents set limits on the activities of owners in restituted housing and force them to subsidize the tenants. This has caused much tension between owners and tenants in restituted housing (and between owners and local authorities), as owners cannot cancel existing leases and 'evict' tenants unless compelled to by the law.

Management has been transferred from public housing management companies to private (or semi-private) companies or joint management by residents (usually condominiums). Public bodies have encouraged the establishment of condominiums in larger multi-apartment houses. Local governments offer financial and non-financial support for condominiums; for establishing them, supporting the transition of management responsibilities, offering training courses and supporting renovation. The process of establishing these condominiums has taken longer than expected. The management in new condominiums is likely not as efficient as expected by public bodies (the manage-

ment was more efficient in former housing cooperatives where the dwellings belonged to cooperatives and not to individuals). In privatized housing, people are mostly focused on their private property and they do not necessarily prefer to act in the common interest. A sense of 'community' has not often developed in condominiums in high-rise housing estates. As a result, common spaces such as staircases, exterior, roof, etc., are depreciating and the future costs for renovation will likely be higher. Other problems faced by condominiums are caused by the various socio-economic backgrounds of residents and their inability to take loans for housing renovation purposes (as these condominiums do not have enough collateral or do not meet other requirements set by banks).

Local government programs are currently increasingly being aimed at supporting new housing construction, while additional efforts are made to motivate private owners to renovate the housing stock. Figure 4.4 summarizes the main positive and negative impacts caused by the housing reforms.

Figure 4.4

Positive and Negative Consequences of the Housing Reforms

POSITIVE	NEGATIVE
<ul style="list-style-type: none"> • Public expenditure and responsibilities concerning housing considerably reduced • Private investments in housing increased • Quality of housing management and communal services improved to some extent • Established condominiums are effective in many cases • Residents who have become owners feel more freedom to carry out their housing strategies • Establishment of social justice through restitution • Housing choices have expanded for wealthier households 	<ul style="list-style-type: none"> • Marginalization of rental sector • Residualization of public rental sector • Polarization in the private rental sector • Spatial segregation • Homelessness • Regional uneven housing development • Conflicts between tenants and owners in restituted housing • Lack of cooperation between governmental bodies on different levels of housing development • Low level of new housing construction • Difficulties in access to housing and in housing affordability for many social groups • Housing management problems • Housing market failures • Private sector interested in profit and non-intervention of government

Though the radical reforms have succeeded to cut the governmental expenditure on housing to a notable degree, the continuation of liberal trends may not be efficient in economic or social terms. On one hand, due to the liberalization of the housing market, the freedom of housing exchange and housing choice has increased for a share of households. On the other hand, many social groups increasingly meet with difficulties in access to housing. The development of solely demand-side politics by governments (such as improving loan conditions for housing purchase) results in higher housing prices. The existing system of subsistence benefits is not functioning effectively enough to cover the necessary costs on housing and is leading to the likelihood that low-income households will occupy substandard living space.

On a national level, the housing strategy—the goals and programs of housing development—has been prepared, but not approved by the government. The established goals are too abstract and the ways of achieving the goals are not sufficiently specified. The absence of a national strategic housing development document makes it more difficult to set up housing policy goals and programs at a local level. Only three larger municipalities have approved their housing development plans, while some other municipalities have established a few housing development goals in the general development plans. The established goals do not cover all important housing development areas. The main emphasis is on supporting owner-occupancy and private housing construction, housing management and renovation by private owners and raising the efficiency of municipal housing stock. The aim is not to considerably extend the public rental housing stock. More successful strategies are the encouragement of owner-occupancy, private housing renovation and new housing construction (target-groups are young families and tenants in restituted housing) and the establishment of condominiums. Policy incentives concerning public housing provisions or other rental housing at an affordable rent level have remained weak. Thus, the present quality of municipal housing is also often low, its management is not efficient and the allocation principles are not efficient enough to satisfy the real need for such housing.

The cooperation between central government and local government should be better organized and the same goes for the objectives of development. Although the national government has to solve the problems related to housing reform (primarily alleviating the problems of tenants in restituted housing) no additional funds have been allocated to local governments for these purposes. Local governments are made responsible for finding solutions to their housing problems, including the social housing sector. The responsibilities of local governments are planning and construction policy, preparing plots for housing construction (roads and infrastructure); providing housing for special social groups and rent regulation. Obviously, due to the constraints imposed by small budgets, municipalities have little or no possibility to make investments, either in the construction of new rental units or modernization of the existing stock, or to finance other large-scale housing projects.

The supply of housing is relatively good in Estonia. Due to the demographic trends, the need for housing has diminished over the past years. Formally, there is a balance between the number of dwellings and households. But in fact, the size of dwellings does not correspond to the size of households and the geographical location of housing and the labor market do not overlap. The problems in the housing market are tied to the relatively old and poor quality housing stock. The level of new housing construction has been extremely low and concentrated in the capital region only. The housing market is regionally clearly divided into active (the Tallinn region and other main towns) and passive markets (most of the rural areas and small towns).

3.1 Policy Recommendations

The imperfections of the housing market can be, to some extent, eliminated by public intervention. The high pressure on the housing markets of large municipalities can be mitigated by encouraging improvements in existing housing stock and the new housing construction. Through regional policy, it is possible to some extent to decrease the disparity between the geographical distribution of the labor market and housing market and to decrease the high pressure on rental dwellings by economic migrants moving from rural areas to the cities. During the second half of the 1990s and during the 2000s, the significant addition to the cities' housing market has been (and will be) the apartment-market and cottage-market of the rural municipalities in the neighborhood of the cities. Thus, the housing situation and the tackling of the housing problems depends to a large extent on cooperation between cities and their surrounding municipalities. Primary housing policy measures are:

- Development of infrastructure, improvement of transport organization;
- Land and planning policy (the distribution of lots on favorable terms, the preparation of properties by the public sector through the establishment of detailed plans and the construction of technical and social infrastructure);
- Development of a financial system (the improvement of loan opportunities for housing purchase and housing renovation). Favorable loan opportunities to certain population groups (through the regulation of interest rates, tax allowances, loan guarantees, etc.);
- From the long-term perspective, direct support for new housing construction through grants in suburban areas.

As neither the market nor the public sector seems to be able to bring about efficient occupancy of existing dwellings, this imbalance will probably remain unresolved until an average household is able to obtain a newly constructed single-family dwelling. The means to support a more efficient occupancy of the existing housing stock are:

- Grants directed to support the renovation of buildings and dwellings in the inner-city areas that often are in a very poor physical state. The grants should be provided on the basis of socio-economic need;
- Targeted grants for the renovation of private dwellings, etc. The supplementary result for this activity is the construction of new dwellings, as it improves the environment and makes neighborhoods more attractive to a potential influx of wealthier groups;
- Improvement of loan terms to condominiums and private individuals for housing renovation/modernization—incl. partial subsidization of the interest rates, loan guarantees, etc.;
- One effective method to accumulate resources for housing investments (especially for renovation) could be to initiate a savings deposit system. However, it is important to consider the unstable character of price dynamics in the real estate market, as interest rates may not keep up with prices in the housing sector. Thus, it is important to provide state guarantees as well as hikes in the interest rates.

Despite the decreasing population, there will probably be no surplus of living space, as pensioners tend to occupy spacious dwellings and young couples or singles look for a dwelling of their own. A more extensive need for living space will emerge around 2015–2020, when the ‘baby-boom’ generation, born in the late 1980s and in the early 1990s, will enter the housing market. This generation will potentially need both private as well as rental dwellings. The private sector is today interested in providing owner-occupied housing to upper-income households (to the 9th and 10th income decile households). It will be problematic for average-income, young households to enter the loan market—and thus to become housing owners—if the following measures, all of which increase supply and demand, are not applied:

- State housing construction grants for local governments that help realize housing programs for young households. The local governments’ own finances should likely be directed towards the same purposes (in wealthier municipalities);
- Interest subsidies and guarantees for housing loans issued to young households (up to 35 years old, with young children);
- Targeted birth grants for families with children who keep housing-related responsibilities (housing loans, etc.).

The predicted changes in the household structure, household financial opportunities and preferences increase the demand for rental dwellings with moderate prices. Pensioners as well as young households prefer increasingly to be tenants (if the tenant-sector is functioning normally). Thus, the plans for the development of the public housing sector should also consider wider social needs besides the needs of tenants in restituted

housing and the disadvantaged groups. Today's policies do not meet the social demand and do not enable rent to be raised to the cost-rent level; the smaller the public rental sector, the harder it is to raise the rent level. The potential for rent increase also depends on the price increase of public services (heating, water supply, electricity, etc.). In view of the current situation, the following initiatives would help increase the efficiency of the rental market:

- Increase the size of the municipal housing fund and extend the range of potential candidates to average-income households, in order to decrease management costs;
- Transfer management of the social housing fund to non-profit independent organizations/companies. Support these organizations in enlarging the social housing stock by the purchase of dwellings in private ownership, new housing construction and the transferal non-residential spaces to residential spaces;
- In the renovation and construction of social housing stock, strict construction quality requirements must be followed. These would guarantee low regular housing expenses in these dwellings;
- Certain favorable conditions on loan interest and land prices and tax breaks and allowances, for the developers of rental housing in the private profit rental sector;
- Privatization of the existing residual (low-quality) municipal housing fund, as managing and renovating it is an economically inefficient proposition. Privatization should be directed to average and higher income households who would be able to make investments in the municipal stock;
- Develop an efficient allowance (benefit) system by the central government to increase housing demand (includes subsidies for tenants as well as owners);
- Transition to cost-rent in municipal/social housing. A households' ability to pay rent must be simultaneously regulated by the social benefit system. Rent level in social housing must, however, remain lower than it is in the private sector.

The system of social benefits does not function effectively in Estonia, in spite of having been in operation for ten years. To achieve a situation where social benefits are better directed to families in real need, the following should be achieved:

- 1) Establishment of acceptable minimum standards (the size of living space, quality) for housing;
- 2) Compensating costs for families in need within these norms (difference between needed costs and own resources).

The share of social benefits aimed at compensating housing costs has gradually decreased in the 1990s. Many households who had fallen into economic difficulties during the 1990s, passed several stages in the process of solving their housing problems

and have reached the state of being “mired down” in poverty (from an average dwelling in town to a low-quality dwelling in town, then from a low-quality dwelling in the countryside to a shelter). If these trends continue, the final results will be expensive and socially perilous. Possible solutions are:

- Increasing the efficiency of the social subsistence system and, thus, saving a considerable amount of resources;
- Considerably increasing the level of social subsistence benefits from resources that become available after raising the system’s efficiency;
- Constructing municipal-owned dwellings with modest living spaces with low monthly expenses that cover the minimal primary housing needs of lowest income households.

The housing problems of the average citizen will probably not find a solution in the new buildings to be constructed within the next 10–15 years. The low average income compared to high construction expenses and the present loan conditions (the interest rates are high, banks have very high loan security requirements) do not favor extensive new construction. Loan conditions have, however, become more favorable compared to earlier years. At the same time, it is essential that there will be an increase in the share of persons improving their living conditions by obtaining a larger dwelling or renovating or enlarging their existing dwelling. Possible solutions for the improvement of the existing housing stock are:

- Central and local governments providing standard solutions for the renovation projects of housing estates that are carried out by condominiums;
- Establishment of a financial system for the renovation of dwellings (the improvement of loan conditions, tax allowances, subsidies, direct grants; about 5–10% of the project costs);
- Promotion of financial models in which special firms provide loans with governmental guarantees to low-income housing owners for improving their housing conditions and pay the related taxes. The companies would receive a share of inheritance right or a proportion from the sale of property in accordance to their investment share;
- Application of rehabilitation policy to increase the quality of life in depressed areas. In certain neighborhoods, the low-quality municipal dwellings could be replaced by new construction, buildings renovated, their size modified according to the market demand (by merging or splitting the dwellings) public rental apartments partially privatized, management of rental housing transferred to the non-profit organizations/housing associations and private investments encouraged. Local governments can support these projects by improving the infrastructure, raising the quality of public spaces and providing green space. Within this process, it is essential that a share of cheap rental dwellings be re-

tained in these areas to keep the residential mix as it is and prevent the outflow of all original residents.

The establishment of short- and long-term housing strategies, the redistribution of public resources and allocation of additional funds to the housing sector, and the acknowledgment of the importance of intervening in the free market processes by both demand-side as well as supply-side initiatives, would increase the chances to overcome the social and economic tensions in the housing sector that have become apparent and are gradually deepening.

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APPENDIX

Table 4A.1

Apartment (in Multi-apartment Houses, Movables) Sale Prices by Income
(Average Net Salary per Month) Ratios in Estonian Counties (End of 2000)

	Average Net Salary per Month [USD]	Average Price per Transaction [Thousand USD]	Price-to-income Ratio
Harju	320.0	14.3	44.6
Hiiu	225.3	3.4	15.1
Ida-Viru	215.8	1.6	7.3
Jõgeva	208.0	1.0	4.9
Järva	208.9	1.3	6.3
Lääne	190.4	2.7	14.1
Lääne-Viru	212.4	1.8	8.4
Põlva	189.0	1.6	8.5
Pärnu	238.6	7.7	32.4
Rapla	237.2	2.7	11.4
Saare	218.7	5.7	26.2
Tartu	219.7	6.9	31.6
Välga	207.9	1.2	5.8
Viljandi	208.4	2.7	13.0
Võru	191.3	3.6	18.6
Total	219.4	3.9	17.7

SOURCE: www.stat.ee

Table 4A.2
 Recipients of Subsistence Benefits by Household Type in Estonia in 2001*

	Number of Applications Approved	% of Households by Number of Applications Approved	Number of Households who Received Benefits	% of Household by Total Number of Households Receiving Benefits	Average Number of Approved Applications
Pensioner households	34,023	7.7	9,543	13.6	3.6
Student households	73,918	16.7	12,018	17.1	6.2
Unemployed households, including	262,116	59.1	41,003	58.2	6.4
• with a member receiving unemployment benefits	139,484	31.5	23,164	32.9	6.0
• with a household member who is long-term unemployed or is unemployed and is looking for a job	122,632	27.6	17,839	25.3	6.9
Households with children	169,955	38.3	28,496	40.5	6.0
Households with a disabled member	25,930	5.8	5,557	7.9	4.7
Other	10,487	2.4	2,108	3.0	5.0
Total	443,265	...*	70,417	...*	6.3

* As one household can fall into several different categories by its social status, one family can be represented in this table more than once. Therefore, the total amount of applications approved and the number of households belonging to different categories shown here is, to some extent, larger than in reality.

SOURCE: Ministry of Social Affairs.

ENDNOTES

- ¹ The preliminary reports of the 2000 Population and Housing Census show that, as of March 31, 2000, there were 618,700 dwellings (detached houses, parts of detached houses, apartments, self-contained rooms in hostels) in Estonia (i.e. the number is somewhat lower than estimated by regular data). According to the census, the number of households was 585,600; i.e. the number of dwellings exceeded the number of households by 5%.
- ² Housing cooperatives differ from newly established condominiums. In this case, apartments in a house belong to the cooperative and dwellers own shares in the cooperative. This form of ownership was important in the Soviet period. Now cooperatives are being transformed to condominiums.
- ³ In 1997, housing loans for tenants in restituted dwellings were introduced. The loan was extremely favorable as the repayment took place by *EVPs*. Unfortunately, the majority of tenants were not able to obtain this loan, as they were not able to fulfill the conditions set by banks.
- ⁴ The non-regular costs for housing, such as costs of major renovation works, can be charged from tenants independently from regular rent, depending on the previous agreement between owner and tenant. In this case, the tenant has right for the extension of a lease.
- ⁵ Rent control in the restituted dwellings last until the current tenant contracts expire, i.e. in most cases after 5 more years.
- ⁶ Housing associations are the previous housing cooperatives. They still operate on the same basis, but are increasingly developing into condominiums (apartments will be privatized).
- ⁷ The data presented in the text is not weighted according to the size of municipal units, since it was demonstrated beforehand that there is no correlation between the size of municipalities and the empirical data. The simple averages per inhabitant are only therefore provided.
- ⁸ In Ida-Viru county (see Figure 4.1) 84% of all housing units belonged to the public sector in 1995, whereas the percentage for the whole country was 56.3.
- ⁹ To date, the monthly rent for a 2-room flat in Annelinn—a city district of pre-fabricated blocks of flats—is around EEK 1,500–2,000 (USD 85–113). In the case of an average-size municipal rental dwelling (31.4 m²) at the current average rent level of 8 EEK (USD 0.45) per m², the monthly rent is 251 EEK (USD 14.2). In Tallinn, the contrasts between market rent level and regulated rent level in municipal dwellings are even greater.

- ¹⁰ The average is this high because of a few small municipalities where the vacancy rate in municipal dwellings is high. A somewhat more reliable indicator is the median, which is 5.6, i.e. there is an equal number of municipalities where the vacancy rate is above and below 5.6% of the total municipal housing stock.

Management Improvement
and Quality Standard Challenges

Local Government and Housing in Romania

Simona Pascariu

Manuela Stanculescu

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Management Improvement and Quality Standard Challenges

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1. INTRODUCTION

Romania is located in the South-Eastern region of Central Europe, with the Ukraine neighboring to the North, the Republic of Moldova and the Black Sea to the East, Bulgaria to the South, the Republic of Yugoslavia to the South-West and Hungary to the West. Territorial distribution is 31% mountains, 36% hills, and 31% is covered by plains. Almost 62% of the total territory is agricultural land, with forests covering 26% of the land mass. No significant changes have been registered for the land use since 1990, with the exception of an increased built-up in areas at the edge of the main cities.

The country's surface is over 238 thousands km² long, being ranked by size as 12th among the European countries and 2nd among EU accession countries. With a population over 22 million inhabitants, Romania is ranked as the 9th in population size in Europe and, again, 2nd among the accession countries.

The population of Romania steadily decreased after 1991 (Census data, January 1992) from 22,810,031 inhabitants to 22,458,022 inhabitants in 1999. Most of the significant decrease was due to the natural negative increase of the population as a result of the lower birth rate.

After 1990, the birth rate decreased from over 1.6% to 1.0%, whereas mortality increased slightly from 1.1% to over 1.2% by the end of the decade (1999). Naturally, the percentage of the aged population has consistently increased. The population rates are estimated to continue on with the trends of the last decade. The population decrease is expected to continue for the next 10 to 20 years.¹ The major factors, which might help the present trend reverse itself, are considered to be economic.

The decrease in the population is also due to emigration. Between 1990 and 1999, over 300,000 people have left Romania.² The main destination countries were Germany—47%, Hungary—11% and the USA—9%. According to their declaration of nationality, emigrants were mainly Romanians (53%), Germans (33%) and

Hungarians (12%). Within the same period of time, almost 60,000 people repatriated to Romania, more than 80% declared as Romanians. Among the repatriated, almost 40% were Moldavians emigrating from the Republic of Moldova, from Germany, the USA, and Israel.

The internal migration (mobility) decreased to a level of 25–30% of the total internal migration in 1990. Whereas, 786,471 people changed their residence in 1990, less than 300,000 people moved annually between 1991 and 1999. The number of emigrants from urban areas became higher than the number of emigrants from rural areas in 1996. The year 1990 can be noted as the time of the last rural exodus into urban areas. Over 616,000 people left rural areas to settle in urban ones.³

In the period between 1991–1999, internal migration reached a certain level of stability between the various origins and destinations, with the mobility flows becoming almost equalizing at the mid-term interval (at around 75,000). However, the most spectacular change was the reversal of the traditional mobility trends in 1995, from rural to urban, into urban to rural mobility.

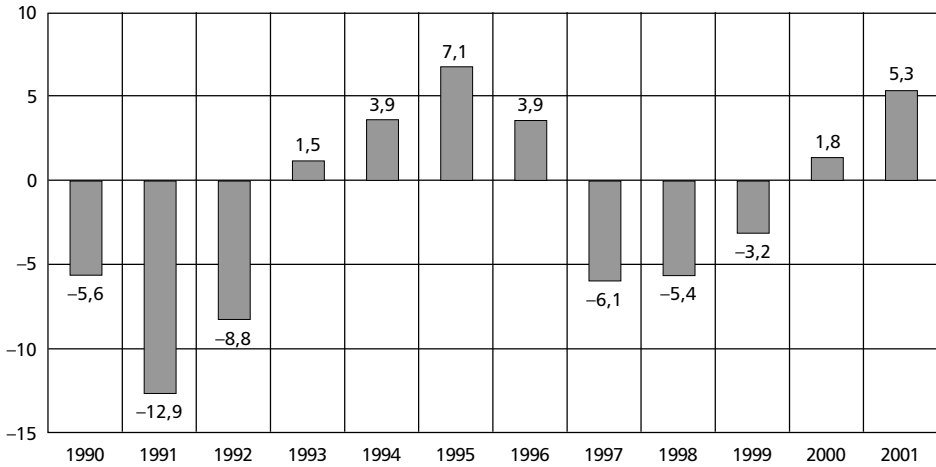
Romania is amongst the most rural countries in Europe. The urban population forms only 55% of the total population. The case of Romania can be compared to that of Portugal, amongst the EU countries, which has one of the lowest levels of urban populations in Europe. During the last decade, the share of the urban population slightly varied with a decreasing tendency by the end of the interval.

The evolution of the GDP during the last decade divides the transition period into three intervals: 1990–1992, 1993–1996 and 1997–1999 (see Figure 5.1). The slow recovery of the economy, which seemed to begin in 2000, may represent its 4th stage of economic evolution after 1989. The most spectacular change in the GDP structure was due to the contribution of the private sector (from 16.4% in 1990 to over 61.5% in 1999).

In terms of urban and rural infrastructure, there are some significant gaps. While, in most of cities, there is a rather extensive water distribution and sewage system, only 2,735 (20%) of the villages have a central water distribution system and less than 500 have a sewage system.⁴ Gas works are distributed in 993 localities, out of which 167 are towns and cities.⁵

Over 200 towns, and about 60 other localities, have central heating distribution systems. However, the last decade proved that central heating is not efficient and is actually very expensive. It has become a burden for most of the urban households. Changing the system is not easy, but already there are examples of best practices in some areas where small local heating centers were set up (e.g. in Baia Mare, Maramures County) or where individual meters were installed in the apartments to measure household consumption.

Figure 5.1
Annual GDP Growth Rate [%]



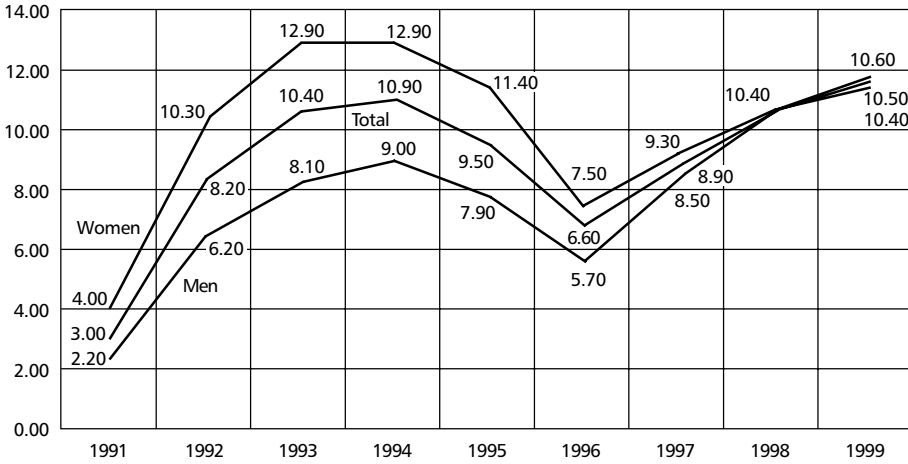
SOURCE: The National Commission for Statistics, Statistical Yearbook 2000 and National Bank Reports.

The major urban infrastructure problem is that it is outdated and most of it has to be replaced. The number of leaks in the urban water distribution system is estimated to be over 50% in some areas. There is now a national strategy to improve the water distribution system and to protect water resources, as expressed in Section II of the National Physical Territorial Plan—Water (Law 171/1997).

Living standards have dramatically decreased over the last decade and this has led to an acute phenomena of poverty⁶ concentrated in some of the more remote rural areas, as well as in the areas of industrial decline (mining areas, for instance). Between 1989 and 1999, employment dropped by more than 2.9 million jobs in the declining industrial sectors, construction and transport. Yet, less than 1.0 million new jobs were created during the same period, mostly in agriculture (400,000), trade, real estates and other services. Some authors considered that, after 1992, a double process of “re-agrarization” and “re-ruralization” begun.⁷

Unemployment, which was unheard of in Romania before 1990, became an indicator used to characterize the state of the social and economic environment. Small cities, under 30,000 inhabitants, which have typically depended on mono-industrial activities, have been mainly affected by the sharp drop in employment during the last decade.

Figure 5.2
Evolution of Unemployment Rate [%] by Gender



SOURCE: National Human Development Report—Romania 2000.

2. HOUSING AND NATIONAL HOUSING POLICY DURING THE TRANSITION

2.1 General Housing Conditions

The present conditions of the housing stock, from a quantitative point of view, can be seen in Table 5.1. The total stock, including almost 7.9 million dwellings, is mainly represented by small and very small dwellings: Over 56% of the dwellings have only one or two rooms and less than 14% have four or more rooms. The discrepancy is even higher in urban areas where over 90% of the present stock consists of dwellings with less than three rooms. On the other hand, in rural areas, there is almost double the number of dwellings with more than four rooms than in urban areas.

If compared to the 1991 stock (census data 1992), the structure of the housing stock has changed very little. The increase in the share of larger dwellings, in general and in rural areas particularly, may be noted. A significant number of villas, built by the “nouveau rich” at the edges of cities and in some rural neighborhoods, may offer an explanation of this trend.

Table 5.1
Dwellings by Number of Rooms in 1999

	Number [Thousands]	[%]	Number of Rooms in Dwelling				
			1	2	3	4	5 or More
Urban	4,176	53	580	1,922	1,264	338	72
Urban (Share)			13.9%	46.0%	30.3%	8.1%	1.7%
Urban	3,707	47	457	1,509	1,119	449	173
Urban (Share)			12.3%	40.7%	30.2%	12.1%	4.7%
Urban	7,883	100	1,037	3,431	2,383	787	245
Total (Share)			13.2%	43.5%	30.2%	10.0%	3.1%

SOURCE: National Commission for Statistics, 2001.

After the 1992 census, the major housing stock indicators were a clear expression of the authoritarian regime of the past 40 years, characterized by an impressive development of the collective housing (block of flats) in the urban areas. The rural areas have been less affected by this type of intervention with the exception of some villages around the capital which have been subject to the important process of “*sistematizare*” (the Romanian physical planning system) during the last decade of the former regime.

It is the fact that Communism had been successful in providing a uniform living standard. This reflects why the differences in surface space and number of rooms in dwellings between urban and rural areas, bigger and smaller cities, are insignificant. Yet, major differences remained in respect to access to a centralized water distribution systems, central heating, gas supply, and quality of the building materials.

The major contrasts between urban and rural areas can be summarized as follows: whereas urban areas are dominated by collective housing (the national urban average is about four dwellings per building) with generally good access to major utilities (water, sewage, central heating, gas supply), rural areas preserved the traditional type of housing (family houses), but scarcely benefited from modern utilities.

Between 1990 and 1999, over 325,000 new dwellings were built and more than 60% of them were built from private funds. The annual average of 32,000 construction launches was much lower than the annual construction rate during the previous four decades, when the annual average had reached over 180,000 launches.

However, the dwellings built during the last 12 years could not significantly change the main housing indicators: the living space floor area per dwelling increased to 34.4 m², the living space floor area per person went up to 11.9, the number of persons per dwelling decreased to 2.91, with persons per room down to 1.18. These changes contributed to the growth in the main housing indicator: the number of dwellings per 1,000 inhabitants (see Table 5.3).

Table 5.2
Main Housing Indicators According to the 1992 Census

	Dwellings per Building	Rooms per Dwelling	Persons per Dwelling	Persons per Room	Living Area per Dwelling	Living Area per Person	Water Works	Central Heating Equipment	Dwellings in Bad and Very Bad Condition
	No.	No.	No.	No.	[m ²]	[m ²]	[%]	[%]	[%]
Bucharest	6.97	2.37	2.71	1.14	34.3	12.9	93.1	82.5	—
Urban	3.88	2.36	3.03	1.28	33.8	11.5	88.4	71.2	10.0
Romania	1.63	2.45	2.97	1.21	33.6	11.5	53.7	38.7	25.0

SOURCE: Urban studies (project no. C 6958), INCD—Urbanproiect, 1992.

In 1998, the number of dwellings exceeded the number of households by more than 300,000. According to indicators, there is an available stock of vacant dwellings. Unfortunately, this stock is not distributed where the demand is. It is located mainly in rural areas or in small towns, where the population is decreasing, or in areas abandoned by German or Hungarian immigrants. Most of these houses are in a bad condition and basically obsolete.

Table 5.3
Housing Stock, Population and Household Size, 1995–1999

	1995	1996	1997	1998	1999
<i>Population [Thousands]</i>					
Romania	22,681	2,607	22,545	22,502	22,458
Bucharest	2,054	2,037	2,027	2,016	2,011
<i>Housing Stock [Thousands]</i>					
Romania	7,782	7,811	7,837	7,861	7,883
Bucharest	776	778	780	784	788
<i>Household Size</i>					
Romania	3.0	3.0	3.0	3.0	2.9
Bucharest	2.8	2.7	2.7	2.7	2.6
<i>Units/1,000 People</i>					
Romania	343	346	348	349	351
Bucharest	378	382	385	389	392

SOURCE: National Commission for Statistics.

Although, in terms of number of dwellings, Romania scores better than Poland, Slovakia, Lithuania, Slovenia or Croatia, it remains behind Hungary, Czech Republic or Bulgaria.⁸

The most relevant changes in the post-communist decade were related to the ownership structure and to investment initiatives. Until 1990, most of the new dwellings, mainly flats, were state owned. During the transition a massive process of privatization of the housing stock transferred most of the existing housing stock into the hands of private owners (former occupants/tenants). This process was accompanied, in the second half of transition period, by the restitution of nationalized houses to former owners, yet, in quantitative terms, the restitution was not significant.

At present, less than 5% of housing stock is formed by public housing. This is one of the lowest figures in Europe, however, still not far behind the statistics from other former communist countries. The maintenance/management of the housing stock is one of the most important issues for the present housing policy; mainly because a large part of state responsibilities, in relation to maintenance, have been transferred to new owners who have no real means and instruments to manage them properly.

Table 5.4
Existing Housing Stock by Number and Ownership

Year	Number at the End of Year				Annual Increase of the Housing Stock [%]
	Total [Thous.]	Public [%]	Private [%]	Other [%]	
1990	8,006 ⁹	32.7	67.3	0.0	n.a
1991	7,659	20.9	78.7	0.4	0.3
1992	7,683	11.3	88.3	0.4	0.4
1993	7,710	9.2	90.4	0.4	0.5
1994	7,749	7.9	91.8	0.4	0.5
1995	7,782	7.3	92.3	0.4	0.4
1996	7,811	6.6	93.0	0.4	0.4
1997	7,837	5.7	93.9	0.4	0.3
1998	7,861	5.2	94.3	0.4	0.3
1999	7,883	4.9	94.6	0.4	0.3

NOTE: According to the National Commission for Statistics, public ownership comprises dwellings owned by the public sector (local authorities); private ownership includes dwellings in the ownership of individuals and private economic and social agents; "other types of ownership" includes dwellings in the ownership of consumer and credit organizations, associations and religious societies.

SOURCE: The National Commission for Statistics, Statistical Yearbooks 1996–2000.

2.2 A Brief Historical Overview of Housing Policy Development

After 1950, industrialization and urbanization began. This was accompanied by an intensive, and extensive, housing sector and construction industry development. The existing towns and newly created ones (over 100 industrial towns were created during the 1960's and 1970's) attracted a huge flow of migration from rural areas. As a consequence, the demand for housing also increased. Between 1950 and 1989, over 5.5 million dwellings were built.

Table 5.5
Average Annual Housing Construction between 1951–1989

Period	1951–1955	1956–1960	1961–1965	1966–1970	1971–1975	1976–1980	1981–1985	1986–1989
Annual Average	86,612.2	172,169.8	181,124.8	129,533.6	150,379.2	168,128.8	141,346.0	81,438.6

SOURCE: The National Commission for Statistics, Statistical Yearbooks 1996–2000.

During 1977–1989, the housing policy focused on “reconstruction” of the old city centers. The major earthquake in 1977 became a good motivation for taking action. Between 1977 and 1987, a total of 182,500 dwellings were demolished; of these, 98,000 were in towns and 84,500 in villages. The annual average number of demolished buildings was 18,000. However, the housing construction rate was much higher—over 160,000 dwellings annually.

The main aspects concerning housing between 1950 and 1989 were:

- The continuous decrease in housing construction financed from the private funds, with a steady period between 1966 and 1970;
- The highest rate of housing construction during 1971–1982 (approximately 160,000 dwellings/year)¹⁰;
- After 1982, the general crisis in the Romanian economy had a direct impact on the housing policy, both in terms of quantity and quality.

Once the old economic system has been abolished following 1990, a new economic system—a market oriented system—began to be built. The housing policy (as well as the social policy in general) fell into a major deadlock, lacking both a strong legislative support and financial instruments. The State found itself without sufficient resources to face the painful economic restructuring process and unable to continue in the previous levels of housing construction.

The economic decline dropped so fast in 1990 that even the dwellings under the construction could only be partially finished, if at all. The responsibility to finish

them was passed to the local authorities that found themselves in a weak position and, in turn, tried to sell or lease the existing unfinished housing structures to the private sector.

Since 1990, the number of houses built or finished has quickly dwindled and the annual average significantly decreased in comparison to previous years. Public investment in the housing sector has constantly decreased. In fact, it was only due to the emergence of private capital that the number of houses completed stabilized to around 30,000 units per year. Still, this figure proved to be insufficient to cover the demand, especially in urban areas and for certain social categories (youngsters, young couples, households with lower incomes and pensioners).

The reduced number of houses built from public funds in this period indicates the drastic withdrawal of the State from the housing sector and the general lack of means for greater accessibility of housing in comparison to the population's needs. The share of public housing investments on the GDP has remained mostly under 1%.¹¹ The trend was to be reversed since 2000, following the establishment of the National Housing Agency (1998).

The period following 1989 will be remembered for a series of significant events relating to housing sector:

- Mass-privatization—sale of flats to tenants using an attractive low interest loan system (Law 61/1990);
- The restitution of the nationalized buildings (some of which were residential houses) to former owners, raising social problems in respect to the current tenants inhabiting the returned property;
- The creation of a new legislative and institutional frameworks after 1995 aiming to reactivate the housing sector and the construction activity;
- The development of the free market of real estates as well as the free market rental system;
- The emergence of private initiatives and larger investments in real estates in residential areas (though addressed to a limited number of people with higher incomes);
- The aging and degradation of large residential areas with block of flats, parallel to a general increase in maintenance costs;
- The general change of aspiration of the urban population, willing to leave the collective living arrangements in the cities and opt for individual housing (if possible outside the cities and in areas less affected by noise and air pollution).

2.3 National Housing Policy Objectives and Legislative Changes

2.3.1 Housing Legislation

The Romanian legislative system consists of acts, Government decrees and resolutions, and ordinances. The Acts (constitutional, organic and ordinary) are drafted by the Government, members of the Parliament, or by the initiative of 250,000 citizens. After debate in the Senate and the Chamber of Deputies, and its adoption by Parliament, the President promulgates it within 20 days after adoption. The President of Romania, in accordance with his constitutional prerogatives, issues the Decrees.

The Government, to regulate the execution of the laws, issues resolutions. Ordinances are issued on matters pertaining to the statutory laws, through a special sanction provided by the Parliament. They come into effect at time of their issue, but are subject to final approval by Parliament. Under special circumstances, the Government may issue the Emergency Ordinances; these come into force only after submission and adoption by Parliament. All legislation comes into force when it is published in the “Official Gazette”.

The development of a legal framework for housing was one of the reforms adopted to facilitate the transition to a market economy and was a key-component in changes within the housing sector.

The Housing Act 114/1996 (and subsequent) sets up the general framework for a national housing policy. Two major obligations for the Government of Romania were foreseen when building the institutional framework for housing:

- a) The responsibility to create a nation-wide, unitary housing development policy;
- b) Development of a housing construction program should be managed by the Ministry of Public Works, Transport and Housing. This is on the basis of evidence submitted by local councils, other interested bodies in the public administration, and also in accordance with the urban and regional planning documents (as adopted). The first National Strategy on Housing was issued by the Ministry for the period between 2001–2004.

The Act regulates the social, economic, technical and legal aspects of housing construction and utilization. It also defines and develops the typology of dwellings (public housing; official residence; intervention dwellings; protocol residences; emergency dwellings; holiday residences); prescribes the development of the housing construction; determines dwelling rental rules; establishes management procedures; and determines the rules for the organization and function of homeowners’ associations.

The Act defines social housing and, specifically, the main target populations for its allocation in the following order: young couples (under 35 years), youngsters (over 18 years) coming from social institutions, the beneficiaries of the Law 42/1990

(1989 Revolution heroes), the physically handicapped people, retired persons, war veterans and widows, other persons and families entitled by the local authorities. The Act states that local authorities are responsible for providing housing to those needy households/individuals. According to the Act, social housing is defined as “housing with subsidized rent, allocated to persons or families in a poor economic situation and without accessibility to property”. The goal of social housing is to provide shelter for a determined period (not permanently) through the social service system and help to assist the households/individuals in overcoming their dependence upon these social services.

The Housing Act is, however, not sufficient to solving the social housing problem. A lot of other instruments and institutions must be put in place. Only recently (since 2001) there has been commitment at the government level to create a complete legislative framework. Since 1994, investments in the “social housing and programs for youngsters” have been modest: 1,260 such public housing in 1994; 1,414 in 1995; and 3,910 in 1996.

The privatization of housing stock (sale of rental housing owned by public authorities and enterprises, including unfinished apartment buildings) was the result of the Decree-Act 61/1990. It enabled the privatization of housing units, built from state funding during the communist period, by selling them to the tenants who could make the down payment of 10% of the total dwelling price and repay the rest of costs through qualified loan with 25-year maturity period. Foreign nationals were eligible to purchase a housing unit by covering the unit price in foreign currency, while repatriated Romanian citizens were encouraged to pay in foreign currencies.

The annex to the Act determined sale prices depending on whether the construction was before the January 1st, 1977, between January 1st, 1977, and January 1st, 1989, or after January 1st, 1989. The law stipulates that a loan, with a 4% annual interest rate and 25 years maturity, will be provided by the Saving and Deposit Bank. Moreover, young married couples (under 35 years) were offered a loan with 2% annual interest and 30 years maturity from the Saving and Deposit Bank. The sale of dwellings was (and still is) processed by real estate agents and/or specialized agencies.

The privatization (sale) of uncompleted or vacant dwellings is covered in Act 85/1992 and has subsequently been developed through Government Decrees 383/1992 and 678/1999. Local authorities are required to identify and monitor the stock of unfinished buildings. They are in charge of organizing public auctions for the sale of these dwellings. The bid starting price must cover the costs incurred up to the particular development stage of each dwelling. The amount received from the sale of units should be used for priorities, such as reimbursing the credit taken to do the work in the first place. Creditors, under development contracts, receive compensation directly according to the value of the work executed. The remaining resources, after credit reimbursement, should be used for financing further housing construction.

Dwellings can be paid for by installments, the first payment being 10% of the purchase price. Agencies are expected to guarantee payment by mortgaging the dwelling. In the case of arrears in the agreed installments, the customer is obliged to pay an annual interest rate of 8%. The dwelling cannot be resold or altered without the prior agreement of the agency until the mortgage has been repaid. Complete default on the loan repayment leads to the eviction; however, there are no statistics available on how often this occurs.

The restitution of expropriated housing is regulated by Act 112/1995, followed by Act 10/2001, which sets the legal status of houses nationalized, and buildings expropriated, by the State. These Acts refer to buildings formerly in private ownership that were nationalized between 1945 and 1949. Restitution can be made, in kind, if beneficiary already lives in the restituted property as a tenant, or in a form of a cash compensation if another household occupies the dwelling. When the housing property is in a multi-apartment building, the ex-owners or their heirs receive the appropriate share on a common property.

Maximum compensation levels are set according to the average salary, as reported by the Commission for Statistics, and are provided for a period of 20 years. The compensation (from the Ministry of Finance's extra-budgetary funds) is to be paid within 24 months of its determination. Tenants living in flats of former owners, or their heirs, benefit from legislative tenant protection.

The rental contract must be extended for an additional five year period, beginning from the definitive decision date concerning the restitution. Tenants can only be evicted if they have been offered suitable alternative housing (e.g. receiving a new dwelling from the landlord or local authority). The restitution procedure for dwellings should take no more than 95 days, and the claimant may appeal a decision within 30 days. Six months after the enforcement of the above-mentioned Acts, tenants of dwellings that had not been restituted could opt to purchase them according to the provisions of the Housing Act. There is no available data on the number of restituted housing units or on how many dwellings have been needed for tenants evicted from restituted properties.

The real estate registration tradition in Romania dates back to the Civil Code of 1864. However, it was applied only in western Romania (Transylvania). Act 7/1996 on Cadastre establishes a new unitary system (with complementary technical, juridical and economic elements) in order to ensure the identification, registration and monitor of all land and other real estate assets, regardless of their use and ownership status. The Act has been harmonized with general European requirements. Land book offices carry out registration under the law for each settlement (rural or urban).

Before the Housing Act, the responsibilities for management of the housing stock were stipulated in Act 5/1973. The Housing Act stipulates that the management of dwelling houses is the responsibility of the owner and it states that management may

be entrusted, from the owner, to physical or legal persons, associations, public agencies or specialized business.

In an apartment building or complex, the owners must establish the Homeowners' Association with the authority of a legal person. The main purpose of this statement is promotion of effective housing management. The Act provides detailed proposals regarding these associations: the creation and the registration; the constitution; the responsibilities of the owners; main activities; the executive board responsibilities. However, there are no restrictions on the organizational structure of the association (for example, they could be constituted over a group of buildings to assist efficient management; or services could be contracted independently from suppliers by each homeowner).

The typical organizational structure of the Homeowners' Association is as follows:

- General assembly of the members (homeowners);
- President (representing the association and assuming certain obligations in the name of the association; representing the association against third persons, including actions against a tenant or a homeowner);
- Executive committee (representing the association in a building management and use);
- Auditing committee (this function may be delegated to other juridical or physical person).

The Homeowners' Association is increasingly seen as an association with legal status not only for the control and monitoring of the private housing management, but also to represent the interest of homeowners in the decision making process (regarding planning/participatory activity for housing maintenance and modernization). It is estimated that there are actually about 300,000 homeowners in Romania who are now in the process of establishing associations. The most important advantages offered by the Homeowners' Associations are:

- The decisions regarding the building are taken through a pooling system;
- The association's budget is also decided via voting. Each association must have a bank account. All homeowners have to pay their contributions to the budget in advance. The Homeowners' Association may apply a penalty to each home-owner for failure to pay the contribution, if settlement is not achieved within 30 days after the specified date. An association can sue in court any homeowner who has not settled his/her payments within 90 days;
- There is a consistent management control of an association's financial situation;
- Homeowners may propose investments or expenditures for the benefit of an association;
- Homeowners may receive a financial report upon request.

Rental housing is based on a written contract between the landlord (public or private) and the tenant which must be registered with the territorial (local) body. The law prescribes how the rental levels are determined: “The rent paid for a dwelling shall cover the expenses related to management, maintenance and repairs, land and building taxes, the costs of investment according to the period determined, in compliance with the legal provisions, and as well the profit, which is negotiated by the parties”. Tenants have the right to form and join tenant’s associations, who will represent them in their relationship with the landlords, as well as with any other third persons.

Rental housing is mostly situated in public housing stock. However, for both private (restituted) and public housing, rental levels are regulated by legislation. The Housing Act 114/1996 provides the legal framework for rental housing (norms for all types of dwellings that are rented, including intervention housing, emergency dwellings and social housing). According to this Act, rent should cover “maintenance, repair, taxes and investment returned” which, if applied, would provide sufficient income to the landlords. However, the rental rates cannot be raised above the ceiling level stipulated in the Act; this is set at 25% of the household income. This level is deemed to be economic and yield an income stream that covers the expenditure recognized in Act as necessary. But, given the low income of the current tenants, it remains insufficient for proper maintenance and repair in most cases.

The situation is even worse for the public rental stock belonging to social housing. Tenants in social housing can be charged no more than 10% of the household income. The legislation assumes that the difference between rental income and expenditure will be covered from the local authority’s budget. In practice, the authorities have found that other urgent priorities prevent this subsidy being provided and, in turn, this suggests that the social housing stock will actually be deteriorating at an even faster rate than housing stock in the private sector.

The Government Emergency Ordinance 40/1999 establishes the protection of the tenants in relation to the problems associated with the restitution of dwellings and determined the rent levels. Thus, rental contracts for housing units are valid for another five years after restitution of property. Local councils are obliged to offer suitable accommodation to tenants losing their homes as a result of a restitution, within one year—as to anyone with a right to social housing—in cases where the average monthly gross income per family member is lower than the national average.

Rental levels (for both “general” public and restituted private rental housing) are also determined by this Government Ordinance, giving a monthly tariff by category/settlement/zone, etc. and calculated in accordance with the criteria for local taxes and fees, applying a coefficient to the basic rent. The basic monthly rental rate is updated each year on January 31st, depending on the annual inflation rate. However, the maximum rent for public or private housing units (including office dwellings and hostels for the employees of commercial and state organizations) cannot exceed 25% of

the family's monthly gross income or of the national average household income, whichever is lower (in public social housing 10% of the income).

"Public" housing was a concept created by the Housing Act. This is housing owned by the local authorities that is not subject to sale to tenants (privatization). It can be created by new construction (zoned according the town master plans) or by the purchase and rehabilitation of existing buildings. The law stipulates minimum norms for floor space and facilities, conditions of potential rental contract and possible beneficiaries. In allocating "public" housing, the local authorities must give priority to specific social groups: young married couples, young people exiting social care establishments, persons with handicaps, pensioners and others. At present, general priority is given to persons losing their homes through restitution. The rental contract is established for five years, with the possibility of renewal.

"Public" housing is financed by local budgets in accordance with Act 189/1998. The State assists in the construction of public housing by transfers from the national budget. Individuals or businesses may also assist in the construction of public housing through donations or financial aid.

2.3.2 Housing Policy Objectives and Housing Programs

The increase in the housing construction in Romania implies the creation of specialized institutions able to apply the housing policies at different levels. As previously mentioned, the first decade of the transition period was not a time of clear housing policies. On one hand, this was due to a very poor inheritance and, on the other hand, to lack of funds, management skills, overlapping and, finally, to the lack of political willingness.

The modest achievements were not equally applied at different levels and it can be said that it was not a working system in this sector. As in many other cases, individual/local leaders managed to make small changes at local level, despite the changes created within the legislative framework.

The state housing programs, relatively recent in Romania, should equally cover the whole nationally territory. The 2001–2004 National Strategy on Housing Construction was issued by the Ministry of Public Works, Transport and Housing in the context of decreasing dwellings built during the period 1999–2000. The Strategy goals are to increase the accessibility of decent dwellings to all the citizens and to attract private investments, which, in time, will relieve state budgetary investments.

Two major programs were developed within this framework:

- The construction of privately owned dwellings (through the National Housing Agency and mortgage credits);
- The construction of dwellings for youth in the rental sector.

Another important program, developed within The National Strategy for the Improvement of the Roma Situation (Government Ordinance 430/2001), aims at increasing the affordability of housing, avoiding social segregation and increasing the participation of Roma communities in the housing building sector.

Housing construction, through the Mortgage Credit Program (via National Housing Agency), allots the Government as the main credit granter. In this respect, the amount allocated for this program in 2001 was ROL 500 billion (USD 17,500,000), as opposed to 1999: ROL 113.5 billion (USD 7,402,335) and in 2000: ROL 97.5 billion (USD 4,494,745).

The Youth Rental Housing Construction Program was then promoted. For this purpose, the Romanian Government proposed the realization of 38,000 rental units for the period between 2001-2004. In 2001, 438 locations for 27,000 units were identified and, among these, 6,790 units in 111 locations were to be finalized in 2002. As main financial contributions, ROL 700 billion (about USD 25 million) was allocated from the state budget and USD 12 million has been received from the external funds (loan), in accordance to the agreement with the Central European Development Bank (CEB). Although the program begun in 2001, that year a number of 3,158 potential locations were already finalized (as compared to 1,301 in 2000).

Box 5.1

Central European Development Bank Social Housing Program

The Bank's "Social Housing Projects in South East Europe" program's main goal to provide support for realization of the national housing policies in the region. Furthermore, the Bank supports projects addressing access constraints to housing of vulnerable groups such as refugees (project in Croatia) and Roma (two projects in Bulgaria). The project approved for Romania is of EUR 71 million, and constitutes the building of rental flats in order to accommodate about 16,000 young people/families in the 18–35 age bracket living on low revenue. The beneficiaries of this target group are to be selected by social commissions of the municipal councils within the counties (local authorities) according to selection criteria.

Other important objectives of the Housing Strategy are:

- a) The finalization of construction of flats within unfinished apartment buildings, according to the provisions of Governmental Ordinance 19/1994.

In order to finalize the 2001 construction work, the total of ROL 240 billion (USD 8,260,775) was allocated from the state budget. A number of 3,986 of apartments (over 7,579 unfinished apartments), all considered being in advanced stage of construction, were included into the program. It also should be mentioned that lower costs per flat in 2001 when compared with those in 2000 shows more effective budgetary

allocations. Utilizing the local workforce (less or more specialized) creates jobs for local workers and stimulates the local economy.

Table 5.6
Number and Costs of Unfinished Apartments

Year	Finalized Flats [Number]	Average Price per Flat
2000	724	ROL 526.3 million (USD 24,260)
2001	1,332	ROL 344.7 million (USD 15,890)

SOURCE: Ministry of Public Works, Transport and Housing, 2001.

- b) The construction of social housing for low-income families drawing the allocation from a national budget allocation of ROL 138 billion (USD 4,748,800) in 2001. An indicative table shows:

Table 5.7
Social Housing Program

Year	Finalized Flats [Number]	Average Price per Flat
2000	341	ROL 473 million (USD 21,805)
2001	695	ROL 364 million (USD 12,525)

SOURCE: Ministry of Public Works, Transport and Housing, 2001.

In the context of insufficient financial sources for social housing at the local level, this program did not engage in new objectives.

2.4 Housing Finance

Several government resolutions in 1990, 1991, and 1992 provided the mechanisms for loans to be obtained to finance housing. The traditional source of funding is a loan from the Savings and Deposit Bank. The Romanian Government channeled resources through this Bank, specifically to facilitate housing construction or purchase by the citizens.

The Act on Mortgage Credit for Property Investment (190/1999) enabled the introduction of the conventional mortgage loan. According to the loan's terms, the credit banks, the National Housing Agency, the Saving and Deposit Bank and other

financial institutions (including any special mortgage funds) are entitled to grant mortgage credits.

The National Housing Agency

The National Housing Agency was established under Law 152/1998 is a public interest institution. It was created to stimulate new housing construction and rehabilitate and consolidate existing buildings. Aiming to co-ordinate the financial resources for housing construction in Romania, the Agency's main objective is to create financial packages and attract management resources for the construction, purchase, rehabilitation, consolidation and extension of dwellings, including those for rent.

The Agency's National Coordinating Council acts through a central administration and branches throughout Romania. Each year, the Agency's management has to report to the Parliament on its activities. The Agency is a "manager-mediator" between banks, developers and individuals and concludes five types of contracts: two contracts with the client (applicant); one with the developer; and contract concluded between the bank, client (applicant) and Agency.

The Agency acts both as a developer and a loan-funding institution. As a developer, the Agency approves contractors, supervises the construction process and, finally, sells the units to eligible households. In order to qualify, the prospective homeowner has to obtain an application form, complete it and send it to the Agency who then pre-selects the eligible applications and forwards them to the bank. The bank analyses the applicant's ability to repay the loan and issues a "solvency certificate".

The applications with solvency certificates are returned to the Agency. The Agency beneficiaries are divided into three groups according to a number of criteria including: loan parameters, the applicant's personal situation and the applicant's credit history. The Agency contracts the construction work on a public tender basis. The contractors must provide their own designs and financial packages.

The period of construction cannot exceed 12 months. The maximum profit margin for the contractor is 5%. The final price is set in the contract and includes a fixed estimation for inflation, which forms an incentive to finish the construction quickly. In multi-household buildings, no construction can begin before 70% of the apartments are pre-sold. There are arrangements that enable Agency dwelling prices to be kept (relatively) lower than market prices. The Agency is obliged to arrange agreements with the respective local authorities in support of its housing schemes. Under such arrangements, for example, serviced plots of land are to be provided free of charge by the authority. Legislation stipulates that the financial beneficiary is granted ownership, or the right to use the land, for the entire existence of the building under preferential conditions. The beneficiary will also be exempt from property taxes during the loan repayment period. Also, the cost of the building permit issue is covered by the Agency.

Despite the tremendous change in the housing policy and public expenditures after 2000 (due to the National Strategy and significant raise in budgetary allocations), judging on the actual size of these budget allocations, housing still is not an important political priority neither at the national nor local government level. In the context of relatively low level of budget allocations directed towards housing (see table below), a very substantial volume of public resources can actually be seen as flowing into housing through an indirect route.

Table 5.8
Housing Expenditures of Local Authorities (1998–2000)

	1998	1999	2000
Local Expenditures [Billion ROL/Million USD]	156.8/ 17.657	966.2/ 63.012	167.8/ 7.735
Local Expenditure as a Proportion of Total Local Expenditure [%]	1.09	4.22	3.31
Proportion of Local Expenditure Covered by Specific Grants [%]	2.25	9.54	3.31
Proportion of Total Local Expenditure Covered by Untaxed Revenue [%]		83.91	78.46

SOURCE: Ministry of Finance, 2001.

Public spending on housing became more concentrated after 2000 in order to:

- stimulate the population who would not have otherwise invested in housing (but with very modest results);
- provide housing (or services) to those not in a position to afford suitable housing (services) on the market (again, with reduced results);
- promote housing activities through the National Housing Agency and work in partnership with local authorities, in this respect.

The main problem in financing the housing sector is the weak targeting of the allocation of subsidies (subsidies—including either on rent or on utilities—is applied across the board, irrespective of the household's income). It is estimated that 90% of all new housing construction is financed by private funds. Considering the almost complete withdrawal of the public sector from rental housing construction, that percentage is not particularly high.

The National Housing Agency program and other government programs directed at support for homeownership are responsible for only a fraction of newly built owner-occupied dwellings. The construction of single-family houses in rural areas is the initiative of prospective owners, without any public assistance. In contrast, market-based developers usually provide new homes in urban areas. Unlike some publicly supported

construction programs, private sector housing projects are not subject to sophisticated patterns of financing.

The initial project capital, sometimes funded by short-term loans, buys the land and covers the administrative costs of acquiring the necessary permits (construction permit, urban permit, utilities use, etc.). Before any actual construction work starts, the developer pre-sells some or all of the future dwellings, in order to obtain the financing necessary to cover the costs of the construction work. A standard initial installment for each prospective buyer is 15% of the agreed purchase price of the property. Installments are indexed to a foreign currency, typically USD, and customers often offer to pay much more up front to protect against inflationary effects on the exchange rates. Such payments may be treated as credit to the developer and bring interest of 10% p.a. and, consequently, late payments will be treated as credit to the customer, for which the developer will charge something like 14% p.a.

The development company additionally insures against losses as a result of late payments. The money for installments can come either from the purchaser's savings or from a loan, but housing investments are still primarily financed with cash.

2.5 Evaluation of National Housing Policy and Legislation

Romania possesses a legislative framework that regulates activity in the major sectors related to housing. The mechanisms and instruments are oriented towards a market economy and have all been created within a short period of time.

Some weaknesses have been identified within the Country profiles on the Housing Sector:¹²

- Despite legal provisions, the problem of uncompleted housing blocks are still significant after 10 years;
- The great number of legislative documents in this sector still does not create a clear and easily intelligible perspective on how to obtain land for construction. The implementation of the new property registration system is slow and the proposed legislation does not include an instrument for guaranteeing enforcement;
- Although the legal framework for the function of the Homeowners' Associations was set up almost six years ago, among new owners, there are general mis-understandings of all the advantages offered in the Homeowners' Association form. A remaining problem is that the Housing Act does not specify the relationship between co-owners (individuals and legal owners/entities) within the same building;
- The housing services supply sector has not yet been covered by legislation almost at all and it is not regulated;

- Although the legal framework for establishing the National Housing Agency and the mortgage credit mechanism is in place, the investments themselves have not been developed.

In summary, the success of establishing legislation that empowers actions has not been matched by the other mechanisms and measures needed to secure that the desired actions take place.

The general conditions of the housing stock in Romania have not yet been the subject of a core survey and costs for repairs, remodeling, refurbishment and renovation have not been assessed. Despite several attempts during the last decade (such as consolidation of the buildings affected by the 1977 earthquake), there have been no national action programs oriented towards improving and consolidating the qualitatively low standard of the housing stock.

Physically, a large segment of the housing stock needs to be, at the least, assessed for repairs, consolidation and rehabilitation. Around 40% of the total urban housing stock is made from prefabricated kits and have insulation problems, whereas a significant share (over 50%) of rural houses are made of non-durable materials.

The problems related to the housing sector mustn't be divided from that of public utilities such as water works, sewage, electricity, gas works, central heating systems, telecommunication and waste collection. Finally, housing standards are related to access to other basic services such as primary education, health care, shopping centers, green areas, as well as good roads and parking areas, especially in the case of apartment buildings. If one adds the matter of urban integration of the big collective quarters, or the chaotic sprawl of new residential developments to previous aspects of roads, or agricultural lands, the complexity of the housing issue can be seen.

This present housing stock situation is also aggravated by its bad maintenance and by the low level of investment during the last two decades. If the refurbishment of buildings is taken over by the emerging Homeowners' Associations,¹³ the public services will need significant improvement in their standards.¹⁴

The mass privatization has resulted in an increase of private ownership in the housing stock from 67.3% in 1990, to over 90% in 1993 and finally 94.6% by the end of 1999. The public sector (in ownership of local authorities) is responsible today for the management of less than 350,000 dwellings, most of them in urban areas, in apartment buildings.

Mass privatization brought many advantages and disadvantages. The main advantages could be seen in the short-term. The former tenants became owners, exerting minimum effort, and the majority of households were able to face the economically brutal changes occurring during the first part of the transition. Moreover, the state collected a significant sum of money to finish the existing housing structures. Yet, due to extremely high inflation and the drawn out building process, few structures were finished.

In the long term, the disadvantages were more numerous: lack of maintenance; weak sense of ownership awareness; reduced capacity for maintenance and improvements; reduced involvement of local authorities in the rehabilitation process; mixed juridical status within the same apartment complex, etc. In terms of market value, the potential to take advantage of a property is very different based on location: in big cities, the price of a flat is set up reasonably in relation to its location and the general state of the building; in small and medium sized towns, areas going through restructuring processes, the prices of the apartments are generally extremely low.¹⁵

Access to a decent house is a problem for most households. The price of a new dwelling is accessible only to a small percentage of the population. The price of a new, average standard, two-room flat is between USD 12–18,000. A two-room flat costs USD 12,000, if built by the National Housing Agency, but this price is excluding the costs of land,¹⁶ infrastructure, profit, taxes and financing costs.

On the free market, the price of a two-room flat in Bucharest can go from USD 7,000 to USD 60,000! The cost for single-family houses (villas) is much higher and can reach over USD 150,000 around Bucharest and other big cities.¹⁷ In urban areas, high-income households have built a relatively small number of villas recently.

Current conditions and management of the housing stock under the framework of the housing decentralization process faces following challenges:

- *Institutional aspects* (in the last decade, the decentralization process meant that the major housing issues were passed over to local authorities, without being supported by the necessary instruments);
- *Physical aspects* (the poor conditions of the existing housing stock, including construction standards, low quality of public utilities and poor environmental conditions especially in the collective high-rise estates and on the edge of cities);
- *Social aspects* (lack of partnership and community spirit in respects to housing management issues; a process of polarization and social and spatial segregation; underdeveloped infrastructure in the sphere of social services; a significant range of problems for social groups: youngsters, old people, disabled, homeless people, etc.);
- *Political aspects* (housing does not represent a political priority equipped with adequate funds and programs both at central and at local levels. There are reduced activities to alleviate the free market economy inconveniences and a lack of co-ordination between sector strategies for improvement of the housing situation);
- *Economic aspects* (such as economic decay, inflation, low income and high unemployment rates, underdeveloped banking saving systems, etc.);
- *Urban planning aspects* (the difficulty of applying concrete and adequate proposals for the restructuring of derelict urban areas or large housing estates).

2.6 Distribution of Housing Policy Tasks between State and Local Governments

As stated in the Constitution, public administration is founded on the principle of local autonomy and decentralization of public services. The present administrative structure has lasted since 1968 (Act 2 /1968¹⁸) with some change in the administrative boundaries between counties. The county, the town, and the commune are traditional administrative structures in Romania. Between 1950 and 1968, districts and regions have replaced the county level following the imposition of the soviet model in the economic, social, political and administrative life.

The structure of Romanian self-government has two tiers: judets (counties), and communes/towns. Communes and towns are considered to be the basic administrative units. There are 41 judets, including the Municipality of Bucharest (the capital), and 2,951 communes and towns. There are over 13,000 localities, most of them rural, this means that there is an average of three to four localities per basic administrative unit.

Table 5.9
Administrative Structure of Romania

	Counties	Basic Territorial Administrative Units (BTAU)		Villages ¹⁹
		Municipalities and Towns	Communes	
Number	41 + 1 ²⁰	263 (85 + 178)	2,687	13,094
Average/County	—	6.4	65.5	319
Average/BTAU	—	—	—	4.9

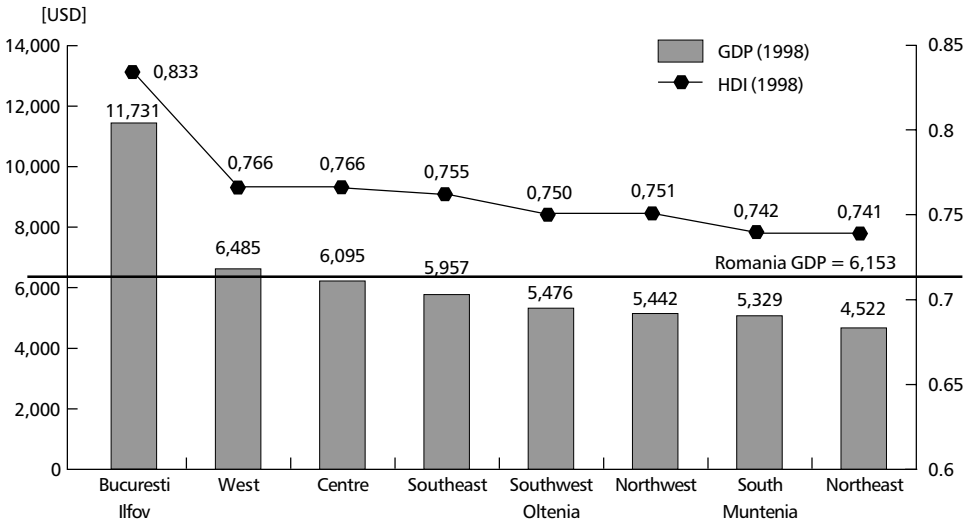
The first Act for public administration issued after 1990 (Act 69/1991, then modified by Act 24/1996) stated the new qualities and responsibilities of the local administrations. The newly created self-governments were Local Councils, at the commune and town level, and County Councils, at the judet level. Local communities elect the members of these councils by a universal, equal, direct, secret and free election process (art. 5 in Act 69/1991).

At the local level, the executive authority hold the Mayor election by universal polling. At the judet level, the executive authority is the President, who is elected in turn by the elected councilors. The Judet/County Council has a coordinating role in respect to the Local Councils.

Statistics shows that there are significant regional disparities (in regions created mainly for the purpose of resources allocation of European Union funds, and that do not hold any actual significant competence) between the 8 territorial entities, in respects to economy, social development and infrastructure. The aggregated GDP indicator

and the Human Development Index, firstly illustrates the large gap between the capital region and the rest of the territory as well as the slight advance of three other regions. A strong correlation between the level of development and the urbanization level should also be noted, the most rural regions also being the most underdeveloped.

Figure 5.3
The Regional GDP and the Regional Human Development Index



SOURCE: National Human Development Report—Romania 2000.

The attributes and responsibilities of local authorities are established by Act 215/2001 on Public Administration, which replaced the Act 69/1991 and its follow-ups, and by Act 189/1998 on Local Public Finance. County Councils do not have direct responsibility for housing and corresponding county strategies pay little attention to housing related issues. This may represent a weakness, as “territorial projects”—particularly spatial development strategies—are being drawn up without particular concern towards housing. Although the major attribute of the County Council is to co-ordinate the development of the basic territorial units, their involvement in housing policies has been significantly reduced.

At the town and commune level, Local Councils represent the local power and are responsible for local economic and spatial development. Considerable responsibilities have been transferred to the local level, this includes housing policies. Article 38 of Act 215 sets up 26 major attributes; particularly significant for housing is the right to approve the repartition criteria for social housing. The UN report on Romania²¹

recommends another 11 responsibilities of local councils in the field of housing. These responsibilities include:

- 1) to develop, implement and monitor local policies according to the general principles of the national policy;
- 2) to monitor the local housing market with careful evaluation of demand and supply;
- 3) to facilitate access to housing for specific categories of families and individuals, and establish their own hierarchy of need;
- 4) to secure special funds for more housing construction for socially deprived individuals and households;
- 5) to provide land for housing construction;
- 6) to develop land for new housing construction projects, providing the basic infrastructure;
- 7) to allocate local government-owned land to social housing;
- 8) to finance the development of social and emergency housing from the local budgets;
- 9) to provide technical assistance, finance and consultancy for the consolidation of the housing stock against seismic damage;
- 10) to support urban renewal and rehabilitation policies, including housing;
- 11) to implement specific programs in support of local actions and community management.

Despite the explicit and implicit legal provisions, the institutional and financial capacities of local councils have been considerably reduced and they cannot properly accomplish the allocated tasks, especially in small and medium sized towns and communes.

3. EFFICIENCY AND EFFECTIVENESS OF LOCAL GOVERNMENT HOUSING POLICIES

It is not an unusual situation for local authorities to not have a specific department or office bearing the title “housing”, nor to not have a department directly and primarily dealing with all housing issues either. Even management, maintenance, sales and utility provision concerning council’s own housing stock, are likely to be handled by different departments.

This section analyses the situation of the local housing management practices/policies from the perspective of their efficiency and effectiveness, including regional differences. The utilized indicators for this chapter are pure data/information, as well

as the results of the Local Government and Housing Survey (LGHS) realized under this project. The questionnaires were mailed out in November 15, 2001, to 263 towns and municipalities with populations over 5,000 inhabitants. The rate of return of the questionnaire survey was 28.8% (valid, completed questionnaires).

Table 5.10

Return Rate for the LGH Survey in Romania by Urban Settlement Size

Type of Urban Settlement by Population Size	Urban Settlements in the Country		Urban Settlements in LGH Survey		Weight
	Number	[%]	Number	[%]	
Towns less than 9,999 inhabitants	70	26.7	16	21.1	1.27
Towns with 10,000–24,999 inhabitants	103	39.2	30	39.5	0.99
Cities with 25,000–49,999 inhabitants	43	16.3	14	18.4	0.88
Cities with 50,000–99,999 inhabitants	23	8.7	8	10.5	0.83
Large cities with 100,000 or more inhabitants	24	9.1	8	10.5	0.86
Total	263	100.0	76	100.0	

SOURCE: National Commission for Statistics and LGH Survey 2002.

Small towns were under-represented in the survey and, therefore, weight was placed to assure the representative nature of the answers, according to the size of municipality. Also, small towns are not balanced throughout the entire territory of the country but, rather, are concentrated within the Transylvania region.²² The weighted averages were thus counted and will be presented in the following sections.

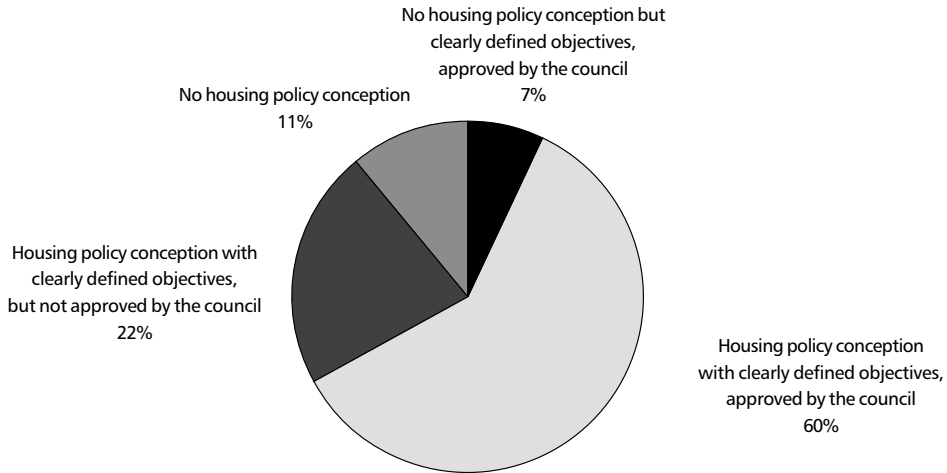
3.1 Local Housing Policy Strategies and Objectives

Most local governments have their own housing policy strategy, with clearly defined objectives to be achieved. Moreover, their policies have already been approved by the Municipal Council and are operational (60%). Due to the small number of cases, there are no significant differences between cities of various population sizes.

The housing policy objectives of local authorities, written by municipalities themselves, placed the necessity of a larger rental housing stock (the actual share is only 4.8 % of total housing stock) as first priority. The responses to the questionnaire indicate large local support for the new housing construction agenda and its allocation amongst the most needy and low-income households. There is also support for housing construction programs (for sale or for rent) geared towards the young specialists, in

partnership with the National Housing Agency via the National Program of the Ministry of Public Works, Transport and Housing. This shows how much importance is paid to those social categories that are able to participate directly in municipal development.

Figure 5.4
Strategies and Objectives for the Local Housing Policies
of 76 Romanian Cities



NOTE: The figure in brackets shows the frequency of objectives on particular ranking place.

SOURCE: LGH Survey 2002, N=76 (weighted data).

There is also concern in regards to the improvement of technical infrastructure and maintenance management (including Homeowners' Association involvement), completion of unfinished dwellings and establishment of strategic partnerships (especially with possible investors/donors).

Significant differences between various categories of size of municipality have not been recorded and it seems obvious that, despite their willingness to build and provide local support for the housing sector, they need external partners (and funds) to be able to participate on this front. The Homeowners' Associations are considered potential and necessary partners for improvement in housing maintenance. The answers, ranked in accordance to their importance, are presented as follows:

- Providing support for housing construction projects and priority allocation of (rental) housing among low-income households and other disadvantaged categories (22.5%);

- Rental housing construction for young specialists in partnership with the National Housing Agency via the national governmental program (17.8%);
- Improvement in the quality of the existing social housing stock's technical infrastructure (13.7%);
- Improvement in housing maintenance management at the local level, and establishment of a local rental system (10.9%);
- Establishment of strategic partnerships (10.1%).

Regardless whether the local governments have their own objectives or not, the respondents were asked to rank a series of nine fixed objectives in accordance to their importance. Each of the nine objectives was assigned a number; 1, being the most important, and 9 being the least important. The consensus reached among the local representatives, regarding the order of the nine objectives, is presented below. Increased affordability of housing for middle and low-income households, as well as better access to housing for homeless people, are at the top of the hierarchy.

This indicates that, in most cities, poverty and increase in people at risk of losing their housing (due to debts relating to the maintenance fee for apartments in apartment buildings) represents social problems that need intervention. Yet, in a great majority of cases, participatory and social segregation issues was placed at the bottom of the housing agenda.

The hierarchy of objectives is not dependent on the size of the city. The changes that can be observed do not differ to statistically significant degrees. However, in larger cities where homelessness is more acute, local representatives tend to place primary importance on the corresponding issue. In contrast, cities where no housing policy strategy has been formulated, objectives related to the homeless issue are placed down to fourth position.

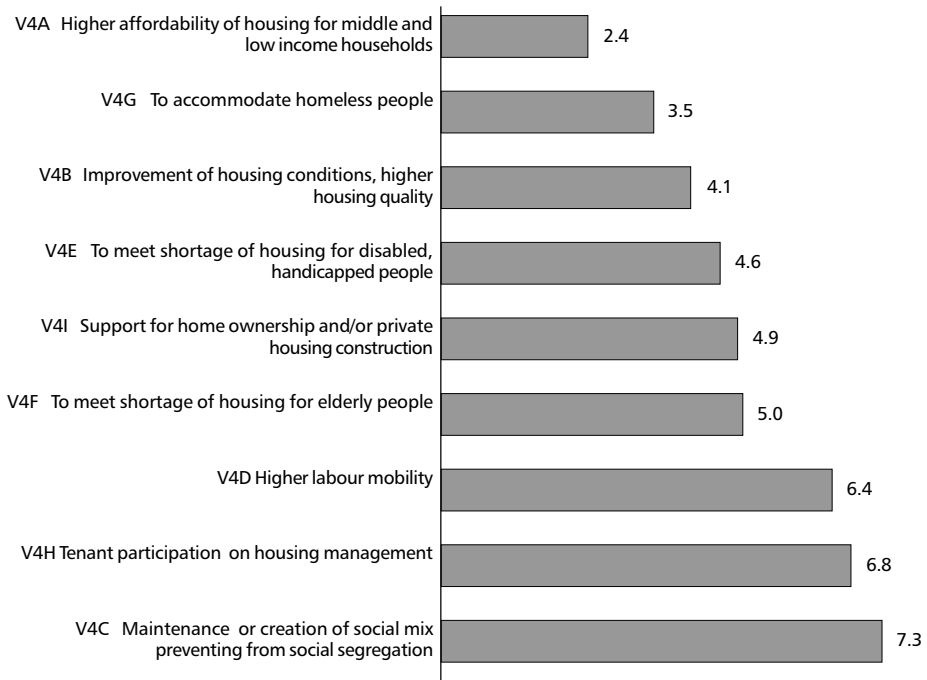
Certainly, one key issue regards the finalization of unfinished dwellings (for sale or rent) and the establishment of strategic partnerships with important national stakeholders (for instance, the National Government and the National Housing Agency) as well as with local actors from the private sector.

The housing system has changed and new actors have appeared; the old players (local and central authorities, government housing agencies and state enterprises) are changing their roles. For the typical housing sector actors, transitions in the housing sector mean radical changes in their behavior—in their norms, interests and attitudes.

The new actors in the housing sector are: developers, construction companies and real estate agencies as well as Homeowners' Association and banks. Analyzing the respective roles of most the institutional groupings, thus related to the Romanian housing sector, reveals the great difficulty in establishing working partnerships between them. This is despite the fact that the housing sector, and the solving of housing

problems, is the collective responsibility of all society's invested interest groups. The actual situation makes clear that the institutional framework has to be flexible and capable of step-by-step changes parallel to the results reached and new goals identified. But the major issue is that all organizations forming the housing institutional environment have to integrate and acknowledge each others role when seeking to fulfill the jointly accepted goals.

Figure 5.5
Hierarchy of Housing Policy Objectives,
as Defined by Local Governments' Representatives



NOTE: The graph presents the average rank of each objective.

SOURCE: LGH Survey 2002, N=76, (weighted data).

At the same, at the local level, a strategic housing partnership would be the best approach for overcoming such difficulties. This will also enhance the separate potentials and resources of the partners. Despite the decentralization process, the current situation shows enormous difficulty in establishing such partnerships. The main challenges, in relation to this situation, are:

- implementation of a housing strategy (at the central and/or local level) is based mainly on homeowners' involvement as main tool, despite their quite weak financial power;
- the different schemes for cooperation and participation in the housing sector did not make precise and perceptible the various relationships and benefits for each social group/organization/level interested in the housing sector;
- the allocation of most housing responsibilities have been handed over to the local level without being accompanied by relevant resources;
- generally, housing strategies/policies (where available) were done without sufficient consultancy of the numerous organizations involved in the building, financing, selling, letting, repairing and maintaining of the housing property in Romania.

3.2 Municipal Housing

3.2.1 Overview

The housing stock consisted of 7,907,000 of dwellings in 2000 (about 22,500 more dwellings than in 1999); 4.8% of the stock is in the public ownership of the local authorities. Compared to 1999, the total share of housing built from private funds increased, representing 93.7% of the total number of finished dwellings in 2000.

Table 5.11
Local Authority's Rental Dwellings by City Size

Inhabitants	Number of Rental Dwellings					Share of Local Authority's Housing in Regards to Total Number of Municipal Dwellings				
	Number of Cases	Mean	Standard Deviation	Min.	Max.	Number of Cases	Mean	Standard Deviation	Min.	Max.
Less than 9,999	13	311.9	559.9	3	1,581	12	2.6	1.8	0.4	6
10,000–24,999	29	146.3	139.7	4.0	600	28	4.5	4.7	0.0	19
25,000–49,999	14	304.7	325.2	3.0	1,100	13	5.3	4.5	1.0	15
50,000–99,999	8	1,001.4	650.9	197.0	2,115	8	4.6	2.9	1.1	9
More than 100,000	8	1,553.6	1,239.2	563.0	4,020	8	2.6	1.2	1.4	5
Total*	72	428.4	674.0	3.0	4,020	69	4.0	3.8	0.0	19

* Weighted data.

SOURCE: LGH Survey 2002, N=76 (with 4 cases missing).

The number of rental dwellings varies significantly according to city size. The average number of rental dwellings is significantly greater in the larger cities. However, the estimations concerning housing under local authority do not seem to be reliable. Multiplying the number of dwellings by its share within the municipality and dividing the result by the estimated number of households (population divided by 3.1) results in anomalous products (e.g. in 15% of the instances, more than 100 households correspond with one dwelling). The following table demonstrates the main characteristics of municipal housing. The average size is equal to 44 square meters and a typical dwelling consists of two inhabitable rooms.

Table 5.12
Characteristics of Municipal Dwellings

Characteristics	Simple Average	Standard Deviation	Weighted Average	Standard Deviation	Weighted Average per Inhabitant	Missing Cases [% of Total Sample]
Residential size of LA dwellings [m ²]	43.8	13.8	43.6	14.1	44.1	5.3
Number of rooms per LA dwelling (rooms)	1.99	0.33	1.99	0.33	2	3.9

SOURCE: LGH Survey 2002, N=76 (weighted data).

3.2.2 Management of Municipal Housing

In most cities, the municipal administration manages and maintains the municipal housing. We would point out that, in Romania, the possible answers are not exclusive, as municipal administration is itself a budgetary organization (according to Act 27/1995 Concerning Local Taxes and, subsequently, Act 198/1998 on Local Public Finance).

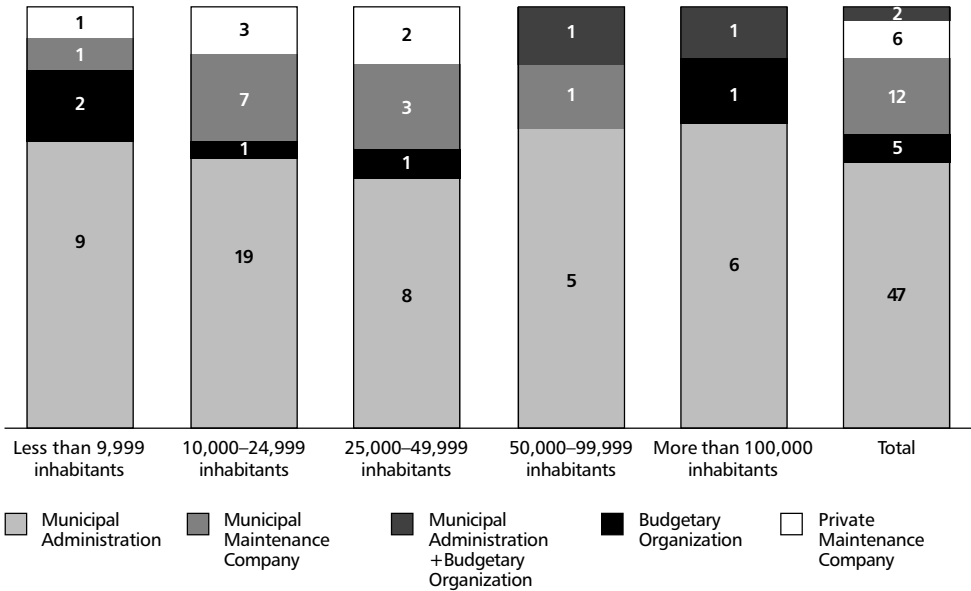
According to existing comparative figures and latest statistics, more than 95% of the total existing housing stock is in private ownership. This represents a major issue both due to its important allocation and the critical situation of most the dwellings, but also because of the new management conditions.

Before the Housing Act of 1996, responsibilities concerning housing stock management were stipulated in Act 5/1973 including the status, organization and function of tenants' associations. The Housing Act specifies that the management of dwelling houses is the responsibility of the owner and it states that the owner may entrust management to an individual or legal entity, an association, public agencies or specialized businesses. Housing managers have the following responsibilities:

- a) To administer goods and financial funds;

- b) To conclude contracts with the suppliers of the necessary services and to follow-up on the way these services are provided, minding the proper function of the building;
- c) To make sure that the cohabitation regulations are recognized and observed;
- d) To represent the owner’s interest in relation to the public authorities;
- e) To fulfill any other obligations as provided by the law.

Figure 5.6
Management and Maintenance of Local Authority’s Housing Stock



SOURCE: LGH Survey 2002, N=76 (with 2 cases missing).

There are no specifications as to the maintenance of individual houses in rural areas. Under the former regime, municipally owned management companies were responsible for repairs and maintenance of state-owned housing. As for private properties, they maintained contractual arrangements with tenant’s associations. As management subsidies have been withdrawn, the system has broken down gradually over the past decade, leaving companies “faced with the market”.

Some of these organizations have gone bankrupt, others have split up. A large number have been absorbed by other ventures during privatization. Still others have moved on to more lucrative markets, such as new construction projects for the very “top scale” market or the, rather limited, state-funded construction business. The role

of the Homeowners' Associations is still limited, sometimes restricted to the role of representational bodies when negotiating—especially with utility companies—the utility payments. Most associations manage their apartment buildings themselves, since it is cheaper to do so. Although the official guidelines recommended a comprehensive housing management service, this has rarely put into practice. Consequently, this activity does not yet represent a professional service including consequences for the responsibilities, as required by the relevant act.

Box 5.2

Pilot Program for the Homeowners' Association in Brasov

Since 1993, the USAID's branch has developed a pilot program in Romania that promotes the benefits of the Homeowners' Associations versus traditional lodgers' associations. Firstly, they are more dynamic and more capable of conducting general building(s) administration and effective management. The program was initially conducted by the Urban Institute in Washington, DC, under the framework of Act 21/1924, on associations' establishment, as a proper law is lacking in this respect to date. Later on, the Resource Center was established (1994) in order to enhance citizens' participation and the role of the citizen in the community as a key voice in the local development process. The services provided by the Center, especially for Homeowners' Associations, include:

- *Consultancy regarding the establishment of Homeowners' Associations;*
- *Consultancy regarding juridical, technical, and financial issues; relations with public institutions, public utilities services providers, amongst association members and with local authorities;*
- *Data collection, problem identification, experience in media coverage; problem solving processes;*
- *Facilitation of linkage with NGO's that are developing Homeowners' Association projects/ activities;*
- *Establishment of Citizens' Information Centers.*

3.2.3 Voids, Rent Arrears and Allocation of Public Housing

Only twelve local representatives answered the question concerning the number of voids in housing under their local authority. Noteworthy, nine of the twelve answers came from local authorities that have formulated a housing policy strategy and have had it approved by the Municipal Council.²³

All politicians focus on newly built dwellings (in order to gain political capital) without paying attention to the existing stock (including apartment buildings begun before 1989, still unfinished). This stock, in the meantime, is continuously deteriorating. The government strategy is rather to engage in discourse focused on new dwellings. In

light of this, the neglect of voids and lack of data concerning this situation, as well as the incapacity to estimate their numbers at the local level, is all in line with the situation and the ideology promoted at the national level.

The rental issue represents an important problem for local authorities in relation to their housing stock. Due to rent regulation (“standardization”), according to the Act provisions (see the previous within the chapters on legislation), rental rates are not subject to local decision, do not cover maintenance and repair costs, and are collected in a very tedious manner.

Table 5.13
Rent Arrears

Inhabitants	Sum of Rent Arrears as a Percentage of Gross Rent Roll for Last Year (2000)					Expected Sum of Rental Arrears as a Percentage of Gross Rent Roll in 2001				
	Number of Cases	Mean	Standard Deviation	Min.	Max.	Number of Cases	Mean	Standard Deviation	Min.	Max.
Less than 9,999	11	44.3	35.5	5.00	104.77	10	48.6	42.0	10.00	139.47
10,000–24,999	23	41.1	33.9	3.00	133.00	24	45.4	33.7	5.00	136.00
25,000–49,999	11	24.5	18.5	1.10	54.00	12	22.7	16.7	2.00	63.00
50,000–99,999	7	43.5	27.3	5.00	96.50	8	39.3	35.0	5.00	114.00
More than 100,000	7	30.0	20.4	3.00	53.00	7	31.2	23.3	3.00	60.00
Total	59	37.5	29.8	1.10	133.00	61	39.0	32.2	2.00	139.47

SOURCE: LGH Survey 2002, N=76 (weighted data).

Table 5.14
Rent Arrears—the Averages

	Simple Average	Standard Deviation	Weighted Average	Standard Deviation	Weighted Average per Inhabitant	Missing Cases [% of Total Sample]
Sum of rent arrears as % of gross rent roll last year	37.5	29.8	38.2	30.5	26.9	22.4
Sum of expected rent arrears as % of gross rent roll in 2001	39	32.2	40	33	28.7	19.7

SOURCE: LGH Survey 2002, N=76 (weighted data).

Rent arrears account for around a quarter of the gross rent roll for those cities with populations of 25–50,000 and about less than a third of large cities with more than 100,000 of inhabitants. In some cities rent arrears outweigh the gross rent roll.

On one hand, it is generally recognized that most of tenants in municipal dwellings are lower income families with many children and adults in long-term unemployment. Thus, tenants have low capacity to pay rent. On the other hand, it is also the result of weak collecting capacity of the local authorities, who do not succeed in developing effective mechanisms and arrangements in this regard. Additional evidence suggests that there is also a lack of information on rent loss through voids.

The answers related to the number of re-lets (tenant turnover) are highly heterogeneous, thus, they are difficult to interpret. Taking a look at the non-responses reveals that most of them come from small towns (less than 24,999 inhabitants).

Table 5.15

The Allocation System for Municipal Housing Dwellings [%]

Number of Cities	Is There a Waiting List for Those Applying for Local Government Dwellings?		Is There a Clearly Defined Point System on Social Need Measurement in Allocation of Municipal Housing Dwellings?		Are Different Types of Allocation Policies Used?	
	No	Yes	No	Yes	No	Yes
Less than 9,999 inhabitants	37.5	56.2	12.5	81.2	56.2	31.2
10,000–24,999 inhabitants	16.7	83.3	10	90	33.3	67.7
25,000–49,999 inhabitants	14.9	85.7	14.9	85.7	28.6	64.3
50,000–99,999 inhabitants		87.5		87.5	12.5	75
More than 100,000 inhabitants		100	12.5	87.5	25	75
Total	17.1	80.3	10.5	86.8	34.2	59.2

SOURCE: LGH Survey 2002, N=76 (note: total % per size do not always cover 100%, due to the missing cases).

A majority of the cities surveyed (small or large, with or without formulated housing policies, approved or not, by the council) have waiting lists for those applying for local authority dwellings. They also have a clearly defined point systems for determining social need.

3.3 Current Trends in the Housing Market

The sales boom was facilitated by an emerging brokerage industry. By 1996, 500 (out of 2,000) real estate companies in Bucharest listed a brokerage as their main activity. The National Romanian Association of Realtors was established in 1994. Since that time, it has become a leader in the real estate industry. Brokers represent both buyers and sellers, and typically receive commission from both. While commissions are negotiable, a broker might receive 6% on an average sale, and perhaps 3% on larger sale (with the percentage of commission split evenly between the buyer and seller). For land sales, the commission ranges from 4% to 6%.

A rental market has also developed, although it is difficult to define its size. Significantly, it is widely believed that much of the market is hidden because of widespread tax evasion. A very recent survey (The Institute for Quality of Life, 1999) indicates that about 3% of households in Bucharest rent units from private owners. Figures for other urban and rural areas are estimated to be lower (Bucharest figures are influenced by a large number of students and other inflowing non-local persons, i.e. business people with families, who lived for long periods in the town).

Brokers from two segments of the population currently divide the rental market: a small luxury market that caters to the international community and a second, larger market for Romanians. To some extent, the first segment, the luxury market, partly determines a share of the new construction.

The mass rental market primarily consists of existing apartments, mostly on the outskirts of the cities, and offers a range of options. Young people, who want to move away from their parents' homes, can share apartments. Some families may share with other individuals (mostly old people) or move into a second home somewhere outside the city (generally in a rural area), so they can gain a cash income by renting their apartments. Rental in the luxury market deals with hard currencies (especially USD or DEM (or did until 2002, especially in western Romania, which was actually called the "DEM area"). The latter type accepts payments in ROL or in hard currencies. Brokers participate in the rental market, typically receiving a month's rent as a commission (split between the tenant and the landlord).

The rental market is proving capable of supporting a greater amount of flexibility in providing a variety of options for households desiring to improve, or merely to adjust, their housing situation. For example, households can "trade up" by selling their existing home and paying the difference between the value of their current dwelling and the better one. Others may opt to pocket some of their home equity by "trading down" for less expensive dwellings.

Despite the very low share of actual rental housing under the charge of local authorities, most municipalities are interested in new rental housing construction and not only for providing for the social needs. They consider it necessary to use this asset

in order to rent dwellings (apartments) to those people who can directly contribute to the local development: young adults, young married couples, and elevated specialists and professionals. In this respect, under the programs envisaged, the municipalities (in all adopted categories) intend to make partnerships with the central government either for the construction of rental housing or to help identify potential strategic partners to pair with in order to begin these kinds of developments.

4. CONCLUSIONS AND POLICY RECOMMENDATIONS

4.1 Main Findings

The amount and quality standards of the housing stock are considerably weak against both the population demand and the required Europe-wide standards. The general picture suggests a lack of decent housing but also a small percent of dwellings/houses having an extremely high-level of comfort as well. About 20% of the total Romanian population lives in overcrowded conditions.

During the last decade, the construction rate was small and inconstant. Starting in 1993, most of the houses were built from private funds (87.4%), mostly in the rural areas as the opportunity for public funding declined. Beginning in 2001, public funds significantly increased, but still remained insufficient accordingly to the present need level.

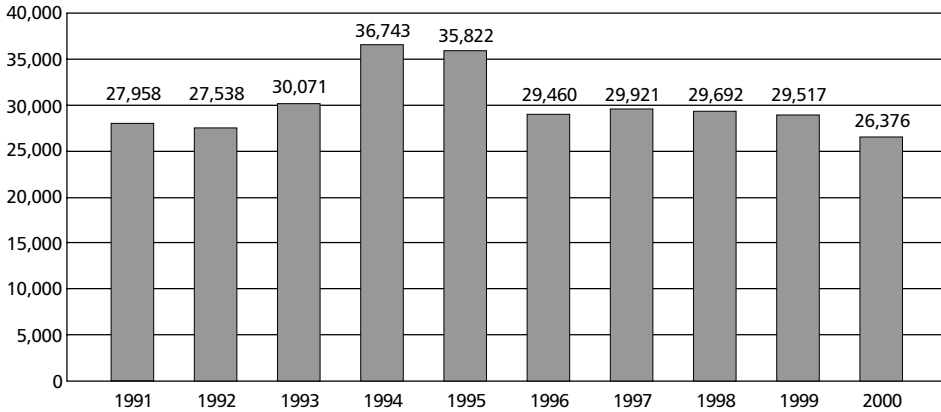
Most of the houses built during the last decade are of a mono-familial type (housing built during the past few years is being characterized by a fundamentally different living style. There is a now a return to a single-family dwelling model or small buildings accommodating a reduced number of families), and of relatively small area in size (in 1997, only 17% of newly built houses have more than one floor, compared to 75% in 1991).

There are a large number of dwellings (2.5 million) that need reconstruction of their thermal insulation protection and over 400,000 buildings, affected by earthquakes, that need (urgent) consolidation works. The housing stock, whose normal period of worry-free function time has been exceeded, is being replaced at very low speeds. Consequently, in the last decade, the overall housing stock has diminished from 8 million to 7.8 million dwellings (see Figure 5.7).

The newly built dwellings have brought a slight improvement to the level of comfort, in terms of both increased inhabitable surface space and a greater average number of rooms per dwelling, from 2.6 in 1991 to 3.3 in 2000. Nonetheless, access to utilities (water supply, sewage system, central heating networks) in the newly built houses is similar to that of the existing stock. Therefore, propagating a minimal share of houses endowed with the necessary equipment for a decent living standard.

A total of 48.5% of dwellings have access to a private or public water supply, 48.5% to sewage, 44.7% are fitted with bathrooms and 33.9 % with central heating. This is due to the fact that most dwellings are built in rural areas from the population’s own funds. Access to utilities depends on available financial resources, the region and the type residential area (rural/urban).

Figure 5.7
Evolution and Number of Completed Dwellings



SOURCE: National Statistics Institute.

The housing stock exceeds the number of households (by about 300,000), especially in rural areas. Despite a stagnant urban population, there is growing pressure concerning the housing demand and a housing crisis has manifested, especially in the big cities, generated by:

- The formation of new families (exceeding growth in the housing stock);
- The degradation of the multi-family housing stock (in high-rise estates);
- The increasing demand for high quality housing.

At the same time, a secondary market was stimulated but without a clearly regulated framework for the (private) rental housing stock. This has permitted both speculations and tax evasion.

The slow pace of construction has stimulated the development of a secondary housing market, based on sale of existing stock. However, there is no clearly defined framework of rental regulations. In this respect, private supply has prevailed and the rent fees are speculative, manifesting as a source for tax evasion. The discrepancy between the market-purchasing price for dwellings and the population’s purchasing power, particularly for the younger segment of the population, was mainly generated by:

- the change in the legal status of many buildings. At the end of 2000, 95.2% of Romania's dwellings were privately owned and 4.8% were under public ownership. The latter have not been privatized, due to the high level of physical and time deterioration and/or the existence of a variety of unsolved legal situations;
- state withdrawal from investment activities. In 2000, only 6% of all new dwellings were built from public funds;
- limited or complete absence of private investments, due to deficient, non-stimulating policies.

Most of the housing stock in Romania is under private ownership. Of this, 36% are apartment buildings in generally poor conditions. This determines the level of difficulty in providing maintenance, repairs and management activities. In this respect, the main challenges are in relation to:

- The antiquity of housing stock built before 1990, aggravated by the chronic lack of maintenance and current repairs, coinciding with lack of forthright responsibility acceptance/commitment for its management;
- The continuing lack of an adequate legal framework concerning new ownership relations under the framework of cohabitation within apartment buildings.

In order that the housing beneficiaries (owners and tenants) are able to face the high costs of necessary repair work, the maintenance of apartment buildings' stock has an important number of locative units with many owners, including many common obligations and responsibilities that need specific regulation and specific financial support.

Since 1990, the actors that participate in the housing environment are diverse in number and in interests, both at the central and local level as well as in the state and/or the private sector.

Within the private sector, the most important actors are: private individual associations (Homeowners' Associations), private sector organizations (financial institutions providing mortgages and loans, Communal Utilities Companies, consultancies and research companies), non-governmental organizations (citizens' initiative-based associations, professional bodies), and other actors (i.e. the Federation of Local Authorities in Romania, the Cooperative Housing Foundation, etc).

The greatest challenge is the definition of the central and local authorities' roles in the housing sphere, as well as the communication, cooperation and coordination of the work tasks and their benefits.

Local authorities' competency covers a variety of fields: land-use strategy, the housing stock, central heating provision, road maintenance, public transportation, water supply and the sewage system, the collection and the management of solid urban waste, the green areas and the parks, civil protection, pre-primary and primary education, sports and leisure, and cultural institutions. The local council adopts the local budget, approves

the guidelines for local development, decides on the local policies for socio-economic development and land use strategies, and establishes and collects local taxes.

All these aspects indicate that Romania is confronted with a severe housing crisis.

4.2 Policy Recommendations

Most of the following recommendations apply, to a great extent, specifically to Romania. So, it is understandable that policy recommendations follow both “Romanian” findings as well as regional ones (maybe also, to a smaller degree, the Refugee issue).

Issues to be Dealt	Policy Recommendations/Remarks
<p>1) Citizenry unable to buy or rent appropriate accommodation</p>	<ul style="list-style-type: none"> • Identification, definition, finalization and implementation of a social housing system (having a strong local determination, based on local needs, involving local authorities, and clarifying each actor’s task and responsibility); • Provision of a (local) rent subsidy system, well thought out and equitable; • Improvement/revision of legislation concerning local authority’s finance so that funding for the housing sector becomes a priority for local authorities; • Raising public awareness on the need for housing renewal projects and full participation; • Decentralization/relaxation of rental controls; • Improvement of temporary accommodation conditions; • Redirection of the NHA’s strategy for the construction of social housing and/or rental housing; • Housing allowances provided to low-income households with various degrees of tenure accepted to cover overall housing costs.
<p>2) Decline in the current housing fund and the incapacity of many families to contribute to capital renovation and maintenance works</p>	<ul style="list-style-type: none"> • Implementation of consolidation works projects (to protect against disasters, mainly earthquakes), supported by the state and monitored by local partners/authorities; • Adoption of legislation regulating budgetary financial support to persons who have lost dwellings due to natural disasters; • During emergencies, the state should react quickly and offer subsidies (cash grants, low-interests loans, interest subsidies, special purpose guarantee schemes, etc.) to individuals for the reconstruction of their homes, or to the municipality for acquiring social housing for the victims; • Avoid shortages as much as possible, as these can cause significant obstructions; • Identify solutions for regeneration of declining stock conditions in the owner-occupant sector, including appropriate measures for supporting general urban renewal and rehabilitation policies.

Issues to be Dealt	Policy Recommendations/Remarks
3) Difficulties in covering the running costs of housing maintenance	<ul style="list-style-type: none"> • Elaboration of a coherent policy to solve the problem of rent arrears (in relation with accelerated price increases, especially for energy, as well as by involving tenants in the housing management process) for the condominiums in the apartment building regarding the cooperation, coordination and co-financing aspects.
4) Unclear distribution and commitment in assuming roles in the housing sector	<ul style="list-style-type: none"> • The central government should consider the need for legislation to support and/or enforce a wider housing role for local authorities as recommended; • Consultation (participatory planning process) of the other actors involved in the housing sector, and proposing clear, transparent policies.
5) Lack of housing managerial capability at the local governmental level	<ul style="list-style-type: none"> • Coordination of the departmental work on dealing with the housing issue in municipal departments; • Facilitating the work with interested people.
6) Poor (or) complete lack of capacity to establish strategic partnerships	<ul style="list-style-type: none"> • Establishment of co-operation between local authorities and local communities (associations), including groups of households in the Homeowners Associations; • Development of programs to support local action and community management and, hence, utilization of the potential for self-help and investment of residents' own financial resources.
7) Lack of coordination between housing policies and other related fields	<ul style="list-style-type: none"> • Cooperation between governmental, voluntary and private institutions to create effective management networks.
8) Difficulties in the efficient use of existing resources	<ul style="list-style-type: none"> • Monitoring of the housing market; • Better aim for the resources: a housing allowance regime could be established to cover the service charges of utility companies, helping them to improve performance and reduce the burden of the state in covering their losses.
9) Poor coordination of the central and local governmental levels, and other actors, in housing	<ul style="list-style-type: none"> • Correct coordination and communication from the beginning of the coordination and participation; • Improvement education as a precondition of a decent and sustainable housing.
10) Lack of housing programs	<ul style="list-style-type: none"> • Increase in funding (from the local and central budget) to support the housing activities of local authorities and vice versa; • The local taxes, land sales, charges for infrastructure provision should be correctly founded, not to add new problems to the affordability of local households.
11) Chaotic urban development	<ul style="list-style-type: none"> • Preparation and/or adoption of the laws on land-use planning, local public utilities and property restitution, with immediate implementation.

Recently, the Council of Europe and the Council of Europe Development Bank prepared an essay called “Towards a Housing Strategy for South Eastern Europe” (January 2002) in the frame of Working Table II, the “Social Cohesion Initiative”.

The document identified “The classic approach of housing policy”, determined to be:

- i) housing development;
- ii) establishment of a legal framework that respects property and housing regulations;
- iii) creation of financial instruments for housing and pro-housing tax measures;
- iv) distribution of housing in accordance with geographic criteria and the types of beneficiaries.

The areas of action, specific to social housing are:

- i) accessibility to the greatest number of people;
- ii) security of tenancy;
- iii) housing units supply provided to low-income groups;
- iv) assistance to homeless persons and other vulnerable groups (refugees, minorities such as Roma, single women, single-parent families, etc).

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ENDNOTES

- ¹ See Romania 2020, a complex study compiled by an interdisciplinary team of professionals.
- ² National Commission for Statistics, Statistical Yearbook 2000.
- ³ An explanation for this phenomenon can be found in the elimination of the administrative restrictions, created immediately after December 1989. A lot of people were only temporary residents in urban areas and were not allowed to get a permanent house in big cities such as Bucuresti, Timisoara, Constanta, Cluj, Iasi, etc. (see Ianos, I., and Talânga, C.—The city and the Romanian urban system within the market economic conditions, 1994).
- ⁴ The National Commission for Statistics, Statistical Yearbook 2000.
- ⁵ The National Commission for Statistics, Statistical Yearbook 2000.
- ⁶ See World Bank studies, Sandu, D & all.
- ⁷ See Stanculescu, M & all.
- ⁸ Hegedüs, J., Mayo, K. and Tosics, I. (1996). Transition of the Housing Sector in CEE Countries.
- ⁹ This figure is probably unrealistic, due to the reporting system during the communist period. The 1992 census provides more credible figures. The 2002 census will confirm, or not, the credibility of the numbers reported after 1992.

- ¹⁰ This period was named the “Socialist State of Welfare” as record of the “great achievements of the regime”.
- ¹¹ In some of the Western European countries, such as France or Netherlands, the public funding is close to 5% of the GDP. In other former communist countries, the trend was similar after 1989. In most of them, the state contribution decreased under 1% of the GDP. However, this was more quickly reversed in countries like Poland, the Czech Republic or Hungary.
- ¹² UN, 2001, Country Profiles on Housing Sector—Romania, New York and Geneva.
- ¹³ Decree 139/N issued by the Ministry of Public Works and Territorial Planning in 1997.
- ¹⁴ Act 326/2001 for local public services has set up this legal framework.
- ¹⁵ In the former industrial city of Hunedoara, facing high unemployment and closure of industrial sites, the price of a 3-room flat is less than 1/3 of the price of a garsonniere in Bucharest.
- ¹⁶ From their own properties, the local authorities, provide the land freely for houses built by the NHA.
- ¹⁷ Still, it is possible to buy a modest villa with basic utilities at the periphery of Bucharest for USD 25,000 to 30,000.
- ¹⁸ Revised and replaced by Act 2/1989.
- ¹⁹ Villages in communes. There are also over 700 small localities within the urban administrative units, which are not counted in this table. Most of them are suburbs of the city proper.
- ²⁰ Bucuresti municipality.
- ²¹ UN, 2001, Country Profiles on Housing Sector—Romania, New York and Geneva.
- ²² Small towns in Transylvania have a series of specific features, distinguishing them from other Romanian towns of the same size population. These are rather historical settlements, which were declared towns based on other criteria than purely administrative (the last phase of socialist industrialization focused on small towns and rural settlements intending to become agro-industrial centers). They are significantly better endowed with urban facilities than other small towns. Furthermore, it should not be overlooked that, in many of these towns, the Saxon ethnic group represented a significant section of the population. After 1989, the Saxon ethnic (nearly all) migrated to Germany and many of their houses became the local authority dwellings. Thus, these local authorities have very specific problems related to housing compared to other towns with more stabile populations. Given

all these data, correction by weighting should be carefully considered. Consequently, we weighted the data only when we refer to the whole sample.

- ²³ Nevertheless, these nine respondents account for only one fifth of the local authorities that declared a clearly defined local housing policy. In fact, each Romanian government launched a pompous dwelling program, which dropped dead before starting.

The Role of Self-government in Housing Development in Slovakia

Local Government and Housing in Slovakia

Jaroslava Zapletalova

Magdalena Antalikova

Eva Smatanova

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The Role of Self-government in Housing Development in Slovakia

Local Government and Housing in Slovakia

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1. INTRODUCTION

As a result of the political changes of 1989, the whole system of economic and social policy of the State had to be changed as well. Since the principles of democracy had been laid down in the Constitution, the central system of planning and management of economic development had to be abolished and conditions for a market economy had to be established. The transition process reached all sectors of the economy as well as social sectors and also required changes in the institutional layout and a division of the responsibilities of public service. Principal steps of the transition process have already been undertaken, but the process has, nevertheless, not yet been completed.

Table 6.1

Main Indicators of Economic Development in Slovakia from 1993–2001

Indicator	1993	1994	1995	1996	1997	1998	1999	2000	2001
Index of GDP ¹ 1989 = 100	79.4	83.3	88.9	94.4	100.3	104.4	106.3	108.6	112.2
Previous Year = 100	96.3	104.9	106.7	106.2	106.2	104.1	101.9	102.2	103.3
Industrial Production Index ² 1989 = 100	62.5	66.8	72.3	74.1	75.3	77.9	75.6	82.6	86.5
Index of Employment from Previous Year = 1003	99.2	98.1	101.7	103.6	99.1	99.7	97.0	98.6	101.0
Unemployment Rate [%] ³	12.7	13.7	13.1	11.3	11.8	12.5	16.2	18.6	19.2
Change of Real Wages in National Economy Per Year [%]	-3.9	3.2	4.0	7.1	6.6	2.7	-3.1	-4.9	0.8
Balance of Current Account/GDP [%] ⁴	-4.4	4.6	3.6	-10.6	-6.6	-9.7	-5.0	-3.7	-8.8

Table 6.1 (continued)
Main Indicators of Economic Development in Slovakia from 1993–2001

Indicator	1993	1994	1995	1996	1997	1998	1999	2000	2001
Inflation Rate [%] ⁵	23.2	13.4	9.9	5.8	6.1	6.7	10.5	12.0	6.7
State Budget Balance/GDP [%]	-6.2	-5.2	-1.5	-4.2	-5.4	-2.6	-1.8	-3.1	-4.6
Average Interest Rate of Credits [%] ⁶	14.4	14.6	13.3	13.4	18.4	19.4	16.9	11.8	9.4

- NOTES: 1) At constant prices.
 2) In 1998 the methodology of measuring the industrial performance changed. There was a shift from measuring of goods production to the calculation of industrial production index.
 3) According to the sample surveys of labor force, on average in a given period.
 4) According to the NBS data on balance of payment.
 5) According to the consumer prices, on average in a given period.
 6) From the loans, taken from commercial banks, on average in a given period.

SOURCE: Study prepared by team of the Institute for Slovak and World's Economy (Ustav slovenskej a svetovej ekonomiky) of the Slovak Academy of Sciences, Chief Ivan Okalik.

2. HOUSING AND NATIONAL HOUSING POLICY DURING THE TRANSITION

2.1 Housing Development Before 1989

Prior to 1989, housing development used to be controlled on the State level and was mainly orientated towards the construction of new housing, to the detriment of maintenance and rehabilitation of the existing housing stock. The state housing policy was based on a political decision made by the Communist Party in the early 60s. In the late 60s, the control and management resulted in the system of the so-called Comprehensive Housing Construction (KVB) under which plans were set together with the provision of the corresponding investment funds from the central government level via Regional National Committees.¹ Self-governing authorities (at the level of towns and villages) lacked any decision-making powers and, thus, were unable to interfere with the process.

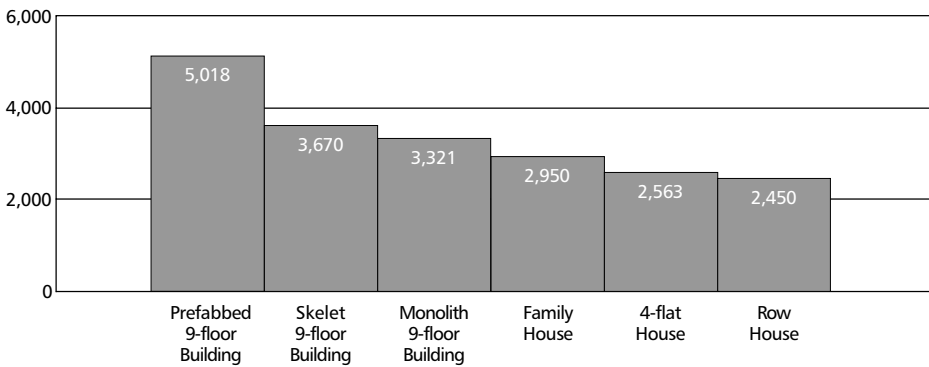
Between 1975–1989, as many as 97% of the multiple apartment buildings were constructed using the prefab technology; in this respect, Slovakia held the leading position among the Eastern European countries. Apartments built using this construction system made up almost 42% of the total housing stock in Slovakia in 1990. The consequences of this situation will present serious territorial and financial problems during the next 20–30 years. The prefab technology applied represented the most

costly technological method to construct housing, as suggested by the data shown in Figure 6.1.

There was a shortage of investment funds for the scheduled volumes and a decision was therefore made in 1958 to mobilize other resources for the purposes of housing construction. In 1959, the idea of construction of family houses supported by direct and indirect subsidies was reintroduced. Apart from that, the activities of housing cooperatives with combined financing were reintroduced as well. One-third of the construction costs were covered from a soft state loan at a 1% interest rate, one-third was covered from a direct state subsidy and one-third was paid by the cooperative member or user.

Figure 6.1

The Comparison of Housing Construction per m² (Prices in SK, 1990)



NOTE: Exchange rate in 1990 was around USD1=SK 28.00.

SOURCE: Slovakian Statistical Office.

The allocation of state rental housing was not based on social criteria (the allocation of state apartments was not connected with the social situation of the applicant).

Apart from the distortion of the economy and the investment process, the principles of the use of housing in the public rental sector had also been entirely distorted:

- Legal distortions arose from the legal protection of the tenant to the detriment of the owner (State);
- Price distortions arose from the price regulatory policy of the State and concerned rents and prices for housing-associated services, including payments for utilities.

The regulatory framework comprised a comprehensive set of regulations adopted in parallel in 1964, that influenced the management of state-owned apartments and payments for their use until the post-1990 transition changes.

Institutions of Housing Administration used to be state-run economic organizations whose management was linked to the state fiscal plan via the budget of the corresponding

National Committees (local “self-government” bodies) on all levels. Local National Committees had authority to establish such organizations for the purpose of administration provided that in the municipality of jurisdiction the stock of state-owned housing exceeded 12,000 m² gross floor area of housing. The whole process of use of state-owned housing stock was highly subsidized because of the regulation of rents. The rents were Slovakian crown (SK) 26/m²/year (USD 0.9 in 1990), representing about 17% of the actual cost-related rents. This remained valid without change from 1964 to 1992. State subsidies to state housing companies equaled SK 12.1 billion (USD 435 million) in 1990, or approximately SK 38,000 (USD 1,360) per unit and year. In spite of the high subsidies intended for operation and maintenance, delays in technical maintenance and rehabilitation kept growing. This suggests that public funds were spent in a substantially inefficient manner.

On the one hand, capped prices were applied, on the other, large subsidies were provided; both without accounting for the social situation of the end-consumer.

2.2 National Housing Policy Objectives and Legislative Changes

The political changes occurring after 1989 required principal adjustments and changes in the system of the domestic legislation. Also, the transition of the whole system of economy from a centrally controlled and planned system to a market economy was associated with the political changes. This required a number of legislative amendments and the adoption of new laws to support democratic rights and a free competitive environment for business. A new legal framework was being established for civil rights relationships (amendment to the Civil Code) and labor relationships (amendment to the Labor Code). The Commercial Code has become the basis for private business. As a matter of fact, the creation of the new legal environment is still ongoing.

In parallel, reform in the area of institutional provision of public service also appeared unavoidable, including central and municipal self-governments and their competencies. The reform was launched by the adoption of a new act (No. 369/1990 Coll. on Municipal System) that re-introduced independent local governments and defined a number of decision-making and executive competencies. What followed was Act No. 138/1991 Coll. on Municipal Property that set the conditions for property transfers from the State and other entities to the ownership of municipal governments. The housing stock owned by the State and administered by state housing companies was transferred, free of charge, to the ownership of municipalities. The property, thus obtained, was significant and highly indebted due to insufficient maintenance and rehabilitation. The volume was estimated at about the amount of the state budget for one year in 1991. Now the level of indebtedness is being estimated to be about SK 250,000 (USD 8,500) per housing unit.

2.2.1 Housing Policy Objectives

The new draft of housing policy strategy was developed as late as 1994 and was subsequently amended in 1995. Its validity was set through 2000. Detailed draft procedures of the reform at the same time had already been developed and approved by the Government Decree on Housing Policy Reform No. 297 (June 1991). The Decree included the following tasks:

- Change in the positions of the State, municipalities and citizens in the housing supply;
- Support for gradual development of a housing market and the housing itself through income, price, fiscal and social policies of the State;
- Reintroduction of the role of towns and villages (local government) in preparation and implementation of the municipal housing policy strategies that would set objectives, determine methods and procedures to meet the needs and requirements of the population with respect to the development of housing using instruments from the State level and involving private capital and business entities.

The Decree also contained deadlines for the fulfillment of specific tasks to be implemented during 1991, as well as procedures for legislative amendments during 1992–93. The State would keep the basic role of creating the necessary legal, economic and institutional environment and applying the corresponding tools to make the housing market emerge; the housing market has, above all, local dimension and the citizen must bear the responsibility for his/her own housing.

The particular goals of the housing policy reform of the State and self-governing authorities were as follows:

- 1) Abolishment of the Comprehensive Housing Construction system;
- 2) Elimination of regulatory measures that distort the competitive environment in the housing market, legal and price deregulation (in particular in the rental sector);
- 3) Privatization of housing stock and settlement of ownership rights with respect to apartments, including their registration (land-register);
- 4) Development and introduction of fiscal tools to enable people from of all income groups to find appropriate housing (accessibility of funds and tax concessions) aimed at the most efficient utilization of public funds as possible;
- 5) Protection of the socially underprivileged citizens (direct subsidies into construction of housing and/or direct subsidies paid to the citizens—housing allowance);
- 6) Making management and administration of housing stock more efficient.

In the majority of cases, the central authorities failed to fulfil the set tasks and this resulted in a significant depression of the construction of housing after 1991. There was

no quality improvement in the management of housing stock at the local level; we even are witnessing a strengthening of the local monopolies to the detriment of price and quality of services provided to the citizens.

A brief overview of goals and tools of the state housing policy strategies passed during the 1990s is provided in Table A6.1 of the Appendix.

2.2.2 Housing Legislation

The transformation process of the reform for the development of housing went on as follows:

Central planning and the implementation of housing construction under the Comprehensive Housing Construction system was discontinued by the Government Decree No. 60/1991. Works already in progress represented a value of approximately SK 22 billion (USD 750 million) in 1991. It was estimated that previously begun construction financed from public funds would be completed by 1996. Through the measure of October 15, 1992, the Minister of Finance abolished financial, credit and other assistance provided to the cooperative and individual construction of housing and upgrading of privately owned single-family homes.

Elimination of distortions in the rental sector was based on the civil law amendments. Enactment of the rental relationship by the Civil Code acted in favor of tenants and against owners (rental contracts could be terminated by court decision and substitute housing had to be provided in a majority of cases). Such discrepancies could only be eliminated by the amendment to the Civil Code adopted in 2001 under Act No. 261/2001 Coll. LL. (the deadline for this task was originally set as January 1, 1992). As already mentioned, it was the essence of the distortion of the investment process, i.e. construction and operation of investments, that was at the basis of the economic distortions of rents. The State still reserves the right to regulate the prices of rents, energies and services.

The process of *rent deregulation* in the Slovak Republic was non-systematic and unsatisfactory. The current maximum price of regulated rents (rent ceiling) enables the municipalities to finance maintenance and current repairs but no medium repairs and overhauls of houses, not to mention catching up with what had been previously neglected. This is a long-term serious political task that needs to be addressed. Any further delays will only make the situation in construction and operation of the housing stock worse, in particular concerning the rental sector, be it public or private. Apart from registered ownership and rental mechanisms, there also exists a “*black market*”. The owners of rental units rent their units or rooms on the black market without official registration. The tenants also rent part of the rental units without the notification of the owners. The rent prices on the black market are set based on the demand-supply

mechanism and they are significantly higher than the cap prices of regulated rent (their real value ranges around about 7% of the investment costs of new construction). Officially, free pricing of rents can be agreed upon for units constructed after 2000 without the contribution of state funds or in old dwellings vacated by former tenant households.

Denationalization of housing stock and adjustments of the relationship to apartment and land ownership have been among the most important transition changes; this was connected to substantial changes in tenure structure (Table 6.2).

Table 6.2
Changes in Tenure Structure during the Transition

	[%]	
	1991	2000
Home-ownership	50.2	76.6
Dwellings Owned by Housing Cooperatives	22.1	15.7
Dwellings Owned by Municipalities	21.2	6.2
State-owned (State-owned Companies) Dwellings	6.5	1.5
	[Number]	
	1991	2000
Total Number of Permanently Occupied Apartments	1,617,828	1,884,846
Total Number of Vacant Apartments	151,000	209,316
Population of Slovakia	5,274,335	5,379,455

SOURCE: Census 1991, 2001, Ministry of Construction and Regional Development 2000.

Out of the total number of vacant apartments, 22% are used for recreation, 7% of the apartments register a change in use. It is official data, but the reality is likely to be much higher. Just 13.6% of them are ineligible for use and 45% are apartments that are vacant, but the reason why is unknown. According to last year's census, these are mainly apartments for which no census forms were returned, even though they are apartments registered in a properly functioning housing fund, are ready for use and whose upkeep must be paid for by somebody.

Significant changes in state ownership occurred during *restitution* based on the Act on Settlement of Property Related Injuries from 1948–1989 and the Act on Transfer of Ownership of Apartments. Denationalization of housing stock was materially addressed by the Act on Municipal Property based on which units administered by enterprises of housing management went, free of charge, from state ownership to the municipalities. A wide public discussion arose concerning the Act on Ownership of Apartments and

Non Residential Spaces, in force since September 1, 1993, that enabled the transfer of ownership of municipal and cooperative apartments to tenants and users of cooperative flats.

Compared to other CEE countries, the above mentioned *Act on the Transfer of Ownership of Apartments and Non Residential Spaces* can, after several amendments, be considered as being among the best. The Act meets the requirement that the transfer of the ownership of apartments within the existing housing stock, as well as purchases by citizens of apartments in newly constructed buildings, needs. The system is based on the ownership of apartments and joint ownership of the common parts and equipment of the building (the condominium form comparable to that existing in Western countries). The Act also includes definitions connected with the said principles. It requires that administration and operation of buildings be provided, for following the transfer of ownership, through establishing Homeowners' Associations as a legal entity or through administrators hired based on administration contracts. All owners are obliged to cover all costs connected with operation, repairs and maintenance of the common areas and equipment. They must pay each month to a "repair, maintenance and reconstruction fund", giving advance payment for all costs. The Act lays down the rights and the responsibilities of homeowners, relying on the principle of democracy in making decisions on significant matters that concern the common parts of the building (majority vote). Any owner who is not satisfied with the decision may refer the matter to the courts. Those regulations were shown in practice as very important.

The hitherto outcome in a majority of privatized buildings shows that the owners are capable of spending funds on maintenance and rehabilitation much more efficiently than was the case with the State via its administration companies. The position of the Homeowners' Association as a legal entity has enabled it to provide, without any problems, for external legal relationships with other entities (supplies of energies and provision of services) and to be able to raise loan funds faster to cover the costs of repairs and rehabilitation. The law lays down the lien on apartments and non-residential spaces in a house that is established to secure receivables concerning the building and its common parts. In this way, owners are protected against delinquents because this lien may be exercised via the courts (or on a fast track via payment order).

The wording of the Act, however, contains two basic non-systemic regulatory restrictions:

- 1) *Right to buy restriction.* The municipality is obliged to privatize the house if more than 50% of the tenants show an interest in purchasing their units.
- 2) *Price restriction.* The price per square meter of floor area of apartments or studios has been set by subtracting from the purchase price of the house the following items:²
 - state grant provided on a comparable cooperative unit, depending on the year the construction commenced;

- 2% and 0.5% for wear and tear for every year of the building's existence or its portion for apartments and studios, divided by the sum of the total floor area of all units and studios in the house. If the price of the house can not be established, it is determined by the Ministry of Finances of the Slovak Republic;
- With respect to transfers of ownership from State or municipalities to the ownership of the tenant, the owner is liable to grant the receiver at least a 30% discount on the determined price (a maximum 80% price discount allowed).

The municipalities were given the responsibility to collect the revenues from the sale of housing units and land in the special Municipal Housing Development Fund to be used for renewal and development of the housing stock and construction and renewal of municipal infrastructure. Decisions on spending from the Fund were to be made by the municipal council.

As a result of the measure mentioned above, the rental units recorded a significant shrinkage in numbers. Their tenants, however, were not differentiated by social criteria and could take advantage of the regulated rents irrespective of their own income. On the other hand, the municipalities were relieved of the significant maintenance debts for which they did not have and could not raise (because of the regulated rents) sufficient funds. As a matter of fact, the measures mentioned meant legal interference with the powers of municipalities to handle their property.

The above mentioned law will require amendment in the near future that will eliminate the aforementioned regulatory restrictions and to make it a generally applicable legal standard that will allow transfer of ownership of apartments under normal conditions of the housing market.

In connection with the legal protection of private ownership, *the operation of the land-register of real estate* was restarted on January 1, 1993. The land-register operates at local offices and authorities having subject-related jurisdiction. The land-register provides for the exercise of constitutional rights to own, sell and transfer ownership. It also fulfils a social and economic role since it provides information about the status of real estate in the Slovak Republic and participates in activities related to ownership, leasing and other property rights (records of easements). The Land Register Act has already been subjected to several amendments. In connection with the most recent decentralization, land-register departments that have been in operation since 1995, as part of the corresponding state administration under District Offices, became independent authorities as of January 1, 2002. This adjustment is expected to improve the situation with respect to entries into the land-register that previously took as many as 20–26 months to be made, in particular in larger towns.

2.3 Housing Finance

Development and introduction of new fiscal tools was necessary in order to replace the centrally controlled system of financing for construction and the renewal of housing stock. This is to be directed towards the creation of conditions for physical persons and legal entities to enable them to provide for their own or rental housing. The idea was to set up a new system of supporting instruments (loans, credits, tax relief, forms of guarantees, etc.) in order to make funds for housing accessible to all income groups of the population (including the introduction of a protection measure for the socially most underprivileged groups). The system, combining financial, tax and regulatory tools, was expected to provide incentives to the population, for-profit and not-for-profit entities to provide housing through co-financing from public and private funds, in a manner depending on the income. Because of their public nature, public funds were expected to be granted in a transparent and efficient manner. Targeted subsidies were also considered and were designed in the following way:

- Subsidies to address specific housing problems of some social groups (barrier-free units, construction of housing units in special houses for pensioners based on cooperation with municipalities);
- Grants to municipalities for constructing units for the socially disadvantaged as well as grants to other entities to resolve problems related to regional development. State support was to be granted preferentially to buildings meeting progressive requirements of operation (reduced energy demands, creation of residential environment).

The utilization of public funds (subsidies) requires public procurement, whose control is the responsibility of the Public Procurement Authority established two years ago. The Authority monitors the compliance with the Act on Public Procurement. However, justification of positions in the budgets submitted is not subject to control. According to the information received from developers, the whole process is mostly formal.

The measures originally suggested for the period of 1991–1992 were implemented as follows:

- *Construction savings scheme*: (implemented by Act No. 310/1992 Coll., as amended from time to time). The State is providing support in the form of a premium for all people saving money for the purpose of construction and/or renewal of housing stock. Act No. 242/1999 Coll.LL. enabled savings and extension of loans to legal entities as well (e.g. Homeowners' Associations) that, however, receive no state premium;
- *Housing Development Fund*: The State Housing Development Fund was established as late as in 1996 by Act No. 124/1996 Coll.LL. and amended by Act No.1/1997 Coll.LL. Due to the large number of applicants, it was amended

by Act No. 76/2000 Coll.LL. to be orientated more towards providing loans to municipalities, selected legal persons and middle income groups among inhabitants (physical persons).

The following can be granted from the Fund:

- Qualified loans up to a maximum 80% of the purchase/construction price with a maturity period up to 30 years and annual interest rate at the maximum level of the discount rate announced by the National Bank of Slovakia;
- Grants up to 50% of the purchase/construction price, or SK 50–1,000 (USD 1.20–24.10) per square meters, depending on the number of rooms in the apartment to applicants procuring barrier/less units;
- Coverage of a portion of the interests (interest subsidy) on loans extended by the construction savings bank.

The qualified loans are only granted for the construction of new apartments, purchase of newly constructed apartments, changes of houses whose construction is completed, construction of social service facilities, thermal insulation and elimination of static faults of houses. It also includes the completion of structures of technical facilities whose construction was not completed under the former system. In order to extend a loan the applicant must show evidence of the availability of his/her own funds amounting to at least 20% of the purchase/construction price (except for municipalities with respect to rental housing construction program). Further conditions are to respect the set limit of the floor area of the unit, set the limit on the household's income (maximum 3.5 times the subsistence minimum), demonstrate the ability to pay off the loans and secure the commitment.

Priorities for allocation of funds have been laid down by the Government Decree through defining housing development programs:

- Social housing program (for young individuals, construction of rental housing for individuals with severe disabilities, construction of social service facilities);
- Program on promotion of labor mobility;
- Program for renewal of apartment buildings.

Transformation of the State Housing Development Fund, with the Fund, means it's inclusion in the chapter of the Slovak Ministry of Construction and Regional Development is under way.

- *Re-introduction of mortgage loans*, including the institution of lien as the basis for mortgage loans (Act No. 21/1992 Coll. on Banks, as amended by Act No. 58/1996 Coll.LL., re-introduced mortgages; full text was published as Act No. 62/1996 Coll.LL.). Mortgage loans have not developed to the expected extent since there is not a sufficiently developed market in securities in Slovakia that

would create preconditions for the raising of long-term funds through selling mortgage bonds and only a small layer of applicants meet the requirements of loan extension (problem of collateralization). The granting of bank guarantees on loans for housing construction was launched in 1999 under the housing development support program. The guarantees are provided by the Slovak Guarantees Bank, a state monetary institution established by Government Decree No. 673. The current government is supporting access to mortgages through subsidizing interest rates to citizens since 1998. Subsidizing is set each year in the State Budget Act and it can be changed annually.³

- *Earmarking yields of sales of apartments and non-residential spaces for housing development.* The rules were contained in Act No. 182/1993 Coll.LL. that imposed upon municipalities the responsibility to generate the Municipal Housing Development Fund that would be used mainly to renew and develop housing stock and to construct and renew municipal infrastructure; the fund was mostly used by the municipalities for one-time infrastructure construction projects.
- *Application of support programs* for the development of housing including new rental social housing construction. The present Government approved housing development support programs as late as in 1999. The programs also included rules for the granting of subsidies for the construction of lower-standard rental housing, thus enabling the municipalities to construct rental housing for socially underprivileged groups of the population and for the maladjusted.

Grants may be provided by the State to municipalities for the construction and completion of rental housing under construction, renewal of historically valuable apartment houses with apartments in towns or villages that are on the UNESCO list of world cultural heritage, reconstruction of non-residential structures into rental apartment houses. Conditions on application for the subsidy are as follows:

- The units will be leased to tenants whose monthly income (including that of persons who are assessed together) does not exceed three times the subsistence minimum;
- Rental contract will be made for a specified period of time not exceeding three years (or ten years for tenants with health disabilities);
- The rental contract will provide the tenant the right to renew the rental contract provided that the conditions mentioned in the rental contract are met;
- The floor area of the apartment will not exceed the set standard (studio 35 m², single room apartment 40 m², one-bedroom apartment 56 m², two-bedroom apartment 80 m²);
- The average costs per one m² of floor area of the apartment does not exceed the set limits (max. SK 18,800 (USD 455)/m² for new construction; SK 14,100 (USD 340)/m² for units reconstructed from non-residential spaces).

The amount of the subsidy for the construction of new and the completion of construction of rental housing already under construction, depends on the average costs of acquisition per m² floor area of the apartment (Table 6.3).

For renewal of historically valuable apartment houses, the Ministry may extend subsidies to cover up to 80% of the purchase costs of the construction. To construct units of different standards for individuals in material need in Roma (Gypsy) settlements, the Ministry may adjust the amount of the subsidy to reach as much as 80% of the purchase costs.

The set conditions principally differ from the allocation system of rental housing prevailing prior to 1989 that did not account for the social situation of the tenant. However, the situation that may occur during the use of the apartment if the income of the tenant increases, is still not addressed (e.g. the option to adjust the rents or to move out of the unit, the way the income is to be tested, whether rental agreements should be made for an unspecified period of time, etc.).

Table 6.3
State Subsidies on Rental Housing Construction

	The Subsidy May Cover a Maximum of:
Up to SK 16,500 (USD 405)/m ² (SK 11,800 (USD 285)/m ² for Reconstructed Structures)	50% of total costs
Between SK 16,501–17,700 (USD 405–427)/m ² (SK 11.800–12.800 (USD 285–310)/m ² for Reconstructed Units)	40% of total costs
Between SK 17,701–18,800 (USD 427–455)/m ² (SK 12,800–14,100 (USD 310–340)/m ² for Reconstructed Units)	30% of total costs

In apartments constructed with state subsidy, rents may reach a maximum of 5% of the purchasing (construction) price. Preliminary calculation of rents suggests that the rents in such units may be substantially higher than the current level of regulated rents for municipal housing. The rent for an old average rental unit, with a floor area of 65 m², represents SK 852.8 (USD 17.8)/month. The rent may range between SK 850–2,950 (USD 17.8–61.5)/month in newly constructed rental apartments financed by the municipality's own funds. If the municipality uses loans from the Fund and state subsidy, the amounts oscillate around SK 4,225 (USD 88)/month (the rent including interest on the loan and repayment of the principal). If the municipality does not apply the permitted maximum limit for rent, it will have to make long-term contributions toward the repayment of loans directly from the municipal budget, this prevents it from replacing rental housing stock and generating sufficient funds for renewal.

2.4 Protection of the Socially Underprivileged

Despite the fact that a major portion of the housing needs modernization, it has been transferred to the citizen. At the same time, some support mechanisms have been created in order to allow the citizen to satisfy this need (e.g. construction savings system with state bonus, mortgage loans with bonus on interest rate, etc.). Some housing needs still need to be satisfied in another (combined) way. “Another” way is connected with the inevitability to engage the mainly communal sphere, or public-private activities, in the area of housing and apartment construction. Such a way of engaging is necessary, since there will still be a whole range of reasons for the existence of public rental housing sector inhabited by a socially weaker groups of citizens.

The necessity to deal with issues of rental and mainly social rental housing is based in the Slovak social reality. It is characterized by the fact that the difference between citizens’ income and prices for apartments is growing and, in some places, a lack of apartments is obvious. The number of citizens in housing need is growing too (homeless, citizens in material distress, Roma settlements). Homelessness is not legally defined, so its registration is not sufficient either and support measures are being applied only on a voluntary basis (not-for-profit organizations) and by individual activities of particular local governments.

The number of citizens in material distress has been growing since 1996. In 2000, this group contained 613,000 of people, i.e. 11.3% of the total population. Regional differences in income and categories of unemployed started to increase, while differences in social allowances and regulated rent payment have not yet been introduced. As far as differences in wages are concerned, Table 6.4 presents the distribution of districts according to the district average incomes.

Table 6.4
Regional Income Distribution

Average Monthly Income [SK]	15,000 and More	13,000–14,999	11,732–12,999	10,000–11,731	8,000–9,999	7,999 and Less
Number of Districts	4	3	4	30	36	2

NOTE: National average income in 2001 was SK 11,732 (USD 252.3).

SOURCE: Statistical Office of the Slovak Republic: Selected Data on Regions in the Slovak Republic—year 2001.

The above-mentioned implies that the average income per person in 86.0% of the districts is lower than the level of the national average income. These data provide

signals of significant regional disparities in Slovakia, as the introduced indicator is only based on persons who are employed.

Table 6.5
Regional Inequalities in Unemployment

Average Rate of Unemployment	30% and More	25.0–29.9%	19.2–24.9%	15.0–19.1%	10.0–14.9%	Below 9.9%
Number of Districts	7	16	21	18	8	9

NOTE: National average rate of unemployment was 19.2%.

SOURCE: Statistical Office of the Slovak Republic: Selected Data on Regions in the Slovak Republic—year 2001.

The protection of socially underprivileged (low-income households, unemployed) has basically two forms: financial subsidies for construction of housing (see above) and/or direct subsidies paid to citizens (housing allowances). The legal provision for the protection of the socially underprivileged, through the introduction of social care benefits paid to individuals when the coverage of the costs of housing would prevent them from satisfying other personal needs at a socially recognized minimum standard, was previewed in 1991. Housing allowances were established by Act No. 300/1999 Coll.LL. Both tenants and homeowners (including owners of family houses) may claim the allowance.

The eligibility criteria are as follows:

- 1) The apartment, rental apartment or single-family house is used by a person who applies for the allowance and whose registered domicile is in the respective apartment located in the territory of the Slovak Republic;
- 2) Rents or contributions to the maintenance and repair fund and payments for utilities and services connected with the use of the apartment have been settled for the calendar half-year that precedes the calendar year in which the allowance is applied for;
- 3) In the case of home-ownership, the property tax has been paid for the calendar year that precedes the calendar half-year in which the allowance is applied for;
- 4) The product of the coefficient of share on income (normative rate of burden) and household income is lower than the amount of minimum expenditures on housing.

The monthly amount of housing allowance represents the difference between the amount of minimum expenditures on housing and the product of the coefficient and income. The calculation formula for housing allowance is, as follows:

$$HA = MEH. (R \times Y)$$

Where: *HA* = housing allowance;
MEH = minimum expenditures on housing;
Y = household income (income of persons assessed together);
R = normative rate of burden.

At the time of its first introduction in 2000, the normative rate of burden *R* was set at 0.3 and then was subsequently reduced to 0.29. The following amounts have been set as the minimum expenditures on housing:

Since 2000	Since July, 2001
• SK 1,410.00 (USD 33.9)	SK 1,680.00 (USD 36,1) monthly for a single person;
• SK 1,759.00 (USD 42.3)	SK 2,090.00 (USD 44.9) monthly for two persons;
• SK 2,090.00 (USD 50.3)	SK 2,490.00 (USD 53.6) monthly for three persons;
• SK 2,430.00 (USD 58.4)	SK 2,900.00 (USD 62.4) monthly for four or more persons.

At the time of the introduction (January 1, 2000) the Slovak Ministry of Labor, Welfare and Family insisted that the maximum participation of potential allowance recipients would be calculated; this amounted to 380,000 families, with SK 1.6 billion (USD 38,370,000) being allocated. However, only 48,000 families were receiving the allowance after the first half-year after its introduction (currently, the number of recipients amounts to about 60,000). There are several reasons for this development. Recipients may receive the allowance only when rent and utilities have been paid for the preceding six months and this may present serious problems to families in a severe enough situation that they badly need the allowance. Municipalities were not ready to deal with delinquency issues in more detail, resulting in a gradual reduction of the accessibility of the allowance to enable these groups to live in an adequate unit. Households at the bottom limit of the allowance (SK 50 or USD 1.20) represented another problematic group: the costs of all the necessary documents to be presented amounted to SK 500 (USD 12.0), so that it was not worth it for that group to apply for the allowance. The number of participating families grew by 20,000 after the first adjustment of the allowance in the second half of 2001. It should be stated at the same time that the information campaign was a one-time event and many households did not even receive information about the existence of this state social benefit granted through social departments of district offices without sufficient feedback control of the application.

2.5 Efficiency of Housing Stock Management and Administration

The transformation in this area has not yet been completed; this concerns the whole investment process of housing construction and operation. So far, the state-owned housing

companies were transferred to municipalities. Their legal status had to be transformed as of January 1, 1993, to turn them into municipal contributory organizations or commercial companies. The goal was to make administration/management of rents more efficient and provide better transparency of financing operation. Only occasionally, municipalities perform the necessary controls of financial flows generated from rents. The transparency of the management of rental funds remains rather problematic. Administration organizations perform their activities based on small trade licenses that are not linked to the necessary qualification.

With respect to social protection, the citizens have the right to receive assistance in providing for shelter (UNO Social Charter that is part of the legal system of the Slovak Republic). On the other hand, however, there is a necessity for a competitive environment in the presence of the free market. The issue of economic efficiency, in particular with respect to the management and utilization of public funds, remains open when it comes to the necessary protection of the socially underprivileged. No principle beneficial to the public has been defined and legally addressed in the area of municipal housing. It concerns the whole process of participation of public funds in housing development, in construction, operation and renewal of housing stock for the selected groups of population that need direct assistance.

This applies, above all, to issues of the legal forms of investment and administration companies and the associated management of those institutions (profit tax levies-related liabilities replaced by the obligation to apply the profits on specified activities, efficient utilization of funds, pre-determined limits on wages as is the case with not-for-profit organizations, etc.). No legal regulation has been drafted and adopted yet concerning social housing (its quality standard and the definition of the user of this type of housing, specification of the contractual relationship—time limits, possibility to terminate). The law does not exist for institutions that would provide for the construction and operation of rental stock on a non-profit principle similarly as in developed countries (housing associations and housing cooperatives).

Also linked to the problem of management and administration is the position and the role of housing cooperatives with respect to the development and operation of the housing stock. The Transformation Act No. 42/1992 Coll. on the Adjustment of Ownership Relationships and on the Settlement of Ownership Claims in Cooperatives was expected to provide the property settlement in cooperatives (this was applied in agricultural cooperatives). For housing cooperatives, the Act required them to bring their legal status into accordance with the conditions laid down in the Commercial Code, within 12 months, with subsequent dissolution if the deadline was not met. Also, the law enabled ownership of cooperative units to be transferred to the user within six months of the tenant requesting so. The status of cooperatives in our legal system has not yet been resolved. However, the management in such cooperatives has not been regulated. In other countries, the principle of management by not-for-profit institutions is clearly applied.

When it comes to the sector of organizations that provide the administration and operation, also private business entities, small trade licensees, commercial companies, limited liability companies as well as shareholding companies gradually start to find their way. Such companies are established also by private persons in accordance with the Commercial Code for the purpose of doing this kind of business. Gradually, the quality of the services provided by some of them exceeds that of transformed housing organizations whose activities in many cases are limited to accounting without any systemic preparation and implementation of maintenance and renewal of the housing stock. Among the huge shortcomings on the part of the administrators, we should mention inadequate efforts aimed at collecting arrears and seeking solutions to resolve the problem in cooperation with the municipality, while distinguishing between social and other cases. There is almost no administration management that would deal with the assessment of the utilization of the old housing stock, evaluation of the technical condition of buildings and suggestions for renewal procedures. Those include the raising of funds for renewal; that would work with the owners and provide alternative procedures for the benefit of the owners and individuals/users.

It is evident that the goal of the State to provide legal, financial and social tools to set up a new model of housing development in conditions of market economy has been fulfilled rather slowly and unsatisfactorily. The setting up of new tools and practices faces internal and external problems: problematic political stability; low level of solvency of the population connected with the overall low economic strength of the society; problems with privatization strongly influenced by political interests; incomplete transformation of business entities as a result of unclear economic and fiscal policies and historical and cultural development (the lack of the spiritual readiness of individuals to respect the new economic system and its rules).

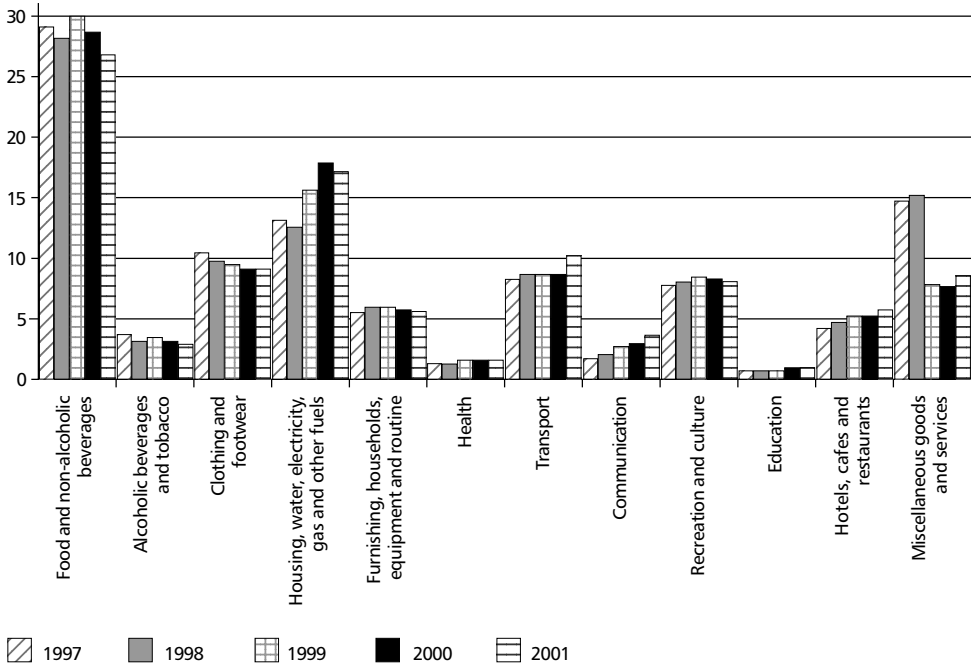
The consumption basket has been relatively well stabilized, although it was specifically housing that was subject to the most significant changes in the past two years due to price adjustments.

As can be seen from Figure 6.2, the costs of housing and services connected with housing keep increasing, in particular, due to price adjustments with respect to services and energies. There is, therefore, only a small maneuvering space left within the investment rehabilitation process for increases in rents and making them more realistic.

The housing allowance that is in place has not been of too much assistance in this respect. It has not been sufficiently harmonized with the other social benefits. This provision blocked the way of distributing the allowance to the socially needy who have serious trouble coping with the basic costs of subsistence.

On the part of the State, creation of conditions should be completed to protect the socially underprivileged groups. This will require their definition and the setting of housing standards for the whole rental sector (not only for new construction).

Figure 6.2
The Development in Household Expenditure Structure (1997–2002)
[In % From Total of Expenditures]

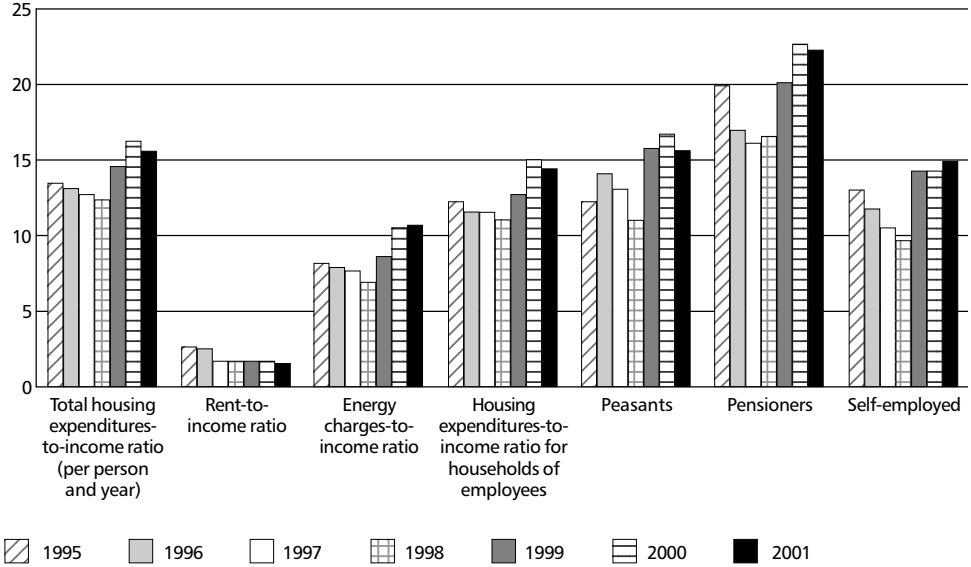


SOURCE: Statistical Office of Slovak Republic: Structure, income and expenditures of private households SR per year 2001.

It is rather difficult to create preconditions in Slovakia, based on which a certain model could work; not even ideas concerning the actual shape of a model are clear so far. Unfortunately, there is a lack of professional discussions to clarify those problems and solutions are often slow, non-systemic and subject to unilateral political interests (the present government of Slovakia is the 6th one in the last decade). The situation is becoming even more complicated due to decentralization that is met mainly with the disinterest of state administration staff.

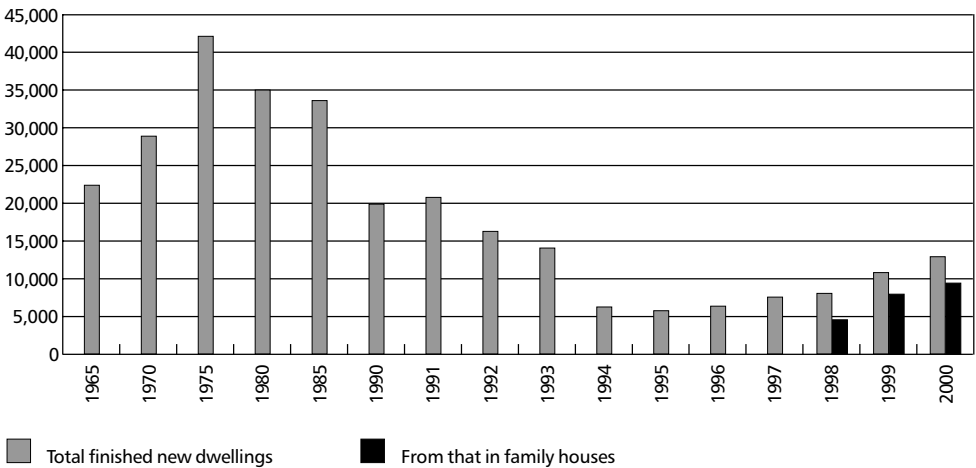
The slow changes in the legislation and the setting up of tools have resulted in a reduction of housing construction; this caused a continuing excess of demand over supply in a housing market that takes a long time to become balanced. In addition, developers are not willing to respond by providing supplies of a sufficiently wide range (quality and price differentiation). There is no supply of small and cheap housing.

Figure 6.3
 The Development in the Structure of Relative Housing Expenditures
 [In % from Total Household Income]



SOURCE: Statistical Office of Slovak Republic: Structure, income and expenditures of private households in the Slovakian Republic per year, 2001.

Figure 6.4
 Total Finished Housing Construction (1965–2000)



SOURCE: Statistical Office of Slovak Republic: Statistical Yearbooks of the Slovak Republic.

The setting up of the rental sector for low-income groups of the population started based on subsidy programs, as late as 2000. The old rental sector owned by municipalities lacks the definition of the conditions related to its use (the tenants pay State-regulated rents that do not even cover the costs incurred by the care of the property). When it comes to the quality of housing and its improvement, the situation changes rather slowly since the social situation becomes strongly polarized. There are increasing numbers of households that can afford a high standard of quality housing on the one hand. On the other hand, however, the social situation worsens (in particular, in the eastern part of Slovakia and for some groups of population such as pensioners and young families with children), so that there is an increasing number of households in unwanted co-existence and the delinquency in the rental housing stock is increasing.

3. EFFICIENCY AND EFFECTIVENESS OF LOCAL GOVERNMENT HOUSING POLICIES

Authorities of the local and regional self-governments are based on the Constitutional Law (a municipality forms basis of local self-government), the Act 369/1990 on Municipal Constitution and the Act 302/2001 on Regional Self-Government. Municipal obligations can only be stipulated in the Acts.

Based on the Act on Municipal Constitution and the Act on Regional Self-Government, municipalities and regions gained legal status and became self-administered territorial units managing their own property and receipts. Citizens take part in decision-making through their elected representatives in municipal and regional structures or via direct voting (referendum on local level).

Municipalities and regions are independent territorial self-government and executive bodies in Slovakia. There are 2,884 independent, self-administered local government units (since 1990) and 8 regions (since January 2002). State administration offices are in 8 regions and 79 districts (decentralization of state administration was realized in 1995).

The settlement of Slovakia is marked with a high proportion of municipalities where the number of inhabitants exceeds 5,000 (95.7%). The town statute has 137 of them. There are only two towns in the category of municipalities exceeding 100,000 of inhabitants: Bratislava (number of permanent residents based on Census 2001 was 428,672) and Kosice (number of permanent residents based on Census 2001 was 236,093).

Almost half of the citizens live in municipalities with up to 5,000 inhabitants (46.1%). The average number of inhabitants per one municipality based on Census 2001 was 1.87, whereas 23% of the inhabitants lived in municipalities with over 50,000 inhabitants.

Jurisdiction of municipality means a set of rights and obligations in the broadest sense of the word, implied by the legal order, with the aim of fulfilling tasks. Those are performed within a certain territory and they concern a particular area of social relationships. A municipality has double jurisdiction; so called independent and transferred. In the first area, municipality is responsible for performance of activities in its own name and own responsibility, while the other one is related to performance of public administration activities “transferred” to municipalities from the State based on various individual legal regulations.

As a part of municipality independent jurisdiction, it is possible to differentiate between the obligatory and optional tasks. Both types of tasks form a typical element of municipal self-government, since municipality, in the first case, has a legal obligation to facilitate certain tasks and activities, while in the second case, it is up to the municipality to decide, whether or not to perform certain activities.

Table 6.6
The Size of Municipalities According to the Population

Size of Municipality	Number of Municipalities (Based on Census 2001)	[%]	Number of Inhabitants (Based on Census 2001)	[%]
Up to 5,000	2,759	95.7	2,481,564	46.1
5–10,000	52	1.8	360,156	6.7
10–20,000	32	1.1	446,208	8.3
20–50,000	29	1.0	850,194	15.8
50–100,000	9	0.3	575,768	10.7
100,000 and more	2	0.1	664,765	12.4
Total	2,883	100.0	5,379,455	100.0

SOURCE: Statistical Office of Slovak Republic: Statistical Yearbooks of the Slovak Republic.

Current reform of public administration is related to fiscal decentralization, with steps planned until the year 2004. As a part of this reform, stabilization of financing rules, including budget determination of shared taxes, should be completed. Next to these resources, activities of self-government are financed from subsidies and municipal tax income (real-estate tax).

Former financial management of municipalities has been very tense. Municipalities have a critical attitude to subsidies granted from the state budget. Moreover, former distribution of shared taxes is also a target of criticism (municipalities obtain only 6.7% to 6.9% from total tax income). Unfavorable development has been frequently overcome

by raising loans and emission of municipal bonds that formed approximately 25% of annual municipal income. Municipalities probably will not be able to manage a balanced budget. Amount of debt service is, however, a problematic issue and, therefore, some limitations are being planned as a part of fiscal decentralization (there are no limits now). Municipalities are not able to economize with their receipts generated by commercial activities and property. Instead of their capitalization with perspective of future profit, they tend to use it for coverage of current expenses, in extreme situations—they sell it. Such development could be very problematic and may cause financial crisis in some municipal budgets. The situation in individual municipalities is, however, different and it is difficult to generalize.

As a result of former procedures, self-governments record the long-term excessive needs in social and economic spheres including improved environmental conditions compared to the capacity of municipal budgets. Present legislation does not require information on financial resources for implementation of plans as part of physical planning documentation (on all levels). Municipalities have not yet learned how to relate proposed development with financial capacity (internal and external ones). No analysis is being processed concerning the return on investment and losses (feasibility study) for individual investment plans. Municipality staff admit that 90% of their activities are related to daily operational tasks instead of processing long-term prospects and their mutual relations. Management approach is lacking. The use of new information techniques is, therefore, very random. As a result, fiscal decentralization proposals involve criteria for adoption of financing resources, guaranteeing returns for self-governing bodies.

The municipal budget financing system is based on shared income on public finance, which is governed by the Act passed each year. This does not offer sufficient room for long-term planning. The gradual decrease of the share of municipal resources is observed. It is related to the former ineffective financial management with its own property, with insufficient knowledge of management practices, inadequate preparation of elected political representatives for the important role of transferred responsibility based on delegated decision-making powers and many other insufficiencies in the practice of municipal bodies. The financial status of local budgets proves that municipalities will have to learn to cooperate with the private sector while fulfilling development goals and earn the necessary support of civil and political organizations. The largest towns are fighting problems with financial management due to high indebtedness (Kosice town has been striving with bankruptcy for two years now, while Banska Bystrica cannot access budget resources without the bank's consent). The situation in budget financing system did not give municipalities a chance during the last ten years to invest into construction of own rental sector of housing.

3.1 Local Housing Policy Strategies and Objectives

The Act on Municipal Constitution stipulates, among other rights and obligations, the following two, which are very significant for housing development:

- Section 4., Part c) to develop and approve physical planning documentation of residential forms, zones and conceptions of development for individual parts of municipal life;
- Section 4., Part f) to facilitate public services.

The Act on Municipal Constitution implies, as mentioned above, that in performance of self-administering activities, the municipality develops and approves physical planning documentation of residential forms and zones, as well as strategy on the development of individual parts of municipal life. It means partial policies for individual fields of development (e.g. land, property, housing policy, etc.). Furthermore, the Act stipulates that municipal representatives “make decisions about the basic issues of municipal life”.

A current tool for coordination of housing construction on the municipal level is the Construction Act 50/1973 Coll., as amended. In order to facilitate a high quality environment and further development of the territory in harmony with plans at all levels, the municipality may apply regulations on interference with the territory as well as correct intentions and forms of investment policy and individual constructions, including housing construction. Technical operational regulations form one of the means for spatial (not yet a legally binding form) and zonal planning. Especially in the municipality and region, they can significantly influence the development of citizens’ standard of living (quality of environment, conditions for static transport, job opportunities, accessibility of services, etc.). Application of regulations is not only related to future interference (new investments), but also to facilitate the necessary quality of municipal operation (they can coordinate the present system of municipal operation). At the same time, they can influence renovation of individual buildings. It can take various forms:

- Stipulation of technical parameters for construction (limitation of noise level, lighting, limitations on height and on reconstruction—superstructures, etc.);
- Regulations for operation (partial or complete limitation of transport, time and spatial restrictions on parking, the obligation of underground garage construction, etc.);
- Regulations applied on property owners’ obligations (the obligation to maintain and paint house facades with certain frequency, maintenance of building surroundings, prohibition of domestic animal breeding in central areas, etc.);
- Regulation of functions within the territory (limitations on types of construction—production, housing, multi-use construction, etc., but also a change

in functions as part of renovation and reconstruction, e.g. maintaining the portion of housing in central areas, forming conditions for parking within the building, preservation of retail shops in certain areas, etc.).

This system is applied, and permanently used, only in several municipalities. In general, the development and operation of the whole municipality is not really directed. It is reflected also in new constructions of housing realized during the last several years. New housing was organized, realized and sold by private constructors after finishing.

As a part of the planning process and development of local housing policy in the municipality, it is inevitable to deduce the overall need for housing from the municipal point of view. Such calculation means a typical irreplaceable input for the whole process of housing development preparation and forms one of the basic pillars of municipal physical planning. Regarding the fact that municipalities have not created necessary database, they lack even the most basic information.

Box 6.1
Housing Need in Trnava Municipality

Based on a particular example of cooperation with the Trnava municipality, the Housing Institute, with the financial support of Know-how Fund, produced a general proposal of procedure for municipal housing policy development. Its application on the particular example of Trnava municipality showed, first of all, a lack of concentrated information, dissolved and incomplete character of database as well as its insufficient interrelation (District Office retains construction permission and certificates of delivery; municipality registers apartment and house owners due to its link with the real estate tax; the Regional Statistical Office performs registration and prognosis on status of inhabitants lacking information on households, etc.) Based on accessible information evaluated and compared with currently valid physical planning documentation, a significant difference in expected housing needs appeared. Central planning documentation counts with growth of municipality and the need for further construction of approximately 4,000 apartments by 2010 and the calculation based on demographic development together with potential of present housing stock stipulated a need for housing construction to 1,600. The main component was elimination of unwanted coexistence of households and not citizens' growth, which had crucial impact on housing needs.

Currently, the municipalities have at their disposal more or less actual physical plans and, in better cases, the zonal plans defining areas for housing and other functions. They lack mainly:

- Information about current status of housing fund;
- Marketing about housing needs (sort of housing, relations of prices, quality);
- Lists of eligible candidates for social housing;
- Housing policy strategy.

However, as a part of planning, the municipality should respond to relatively rapidly changing conditions with a far more flexible approach, in order to assist the balance between supply and demand. Through regulatory (physical and functional regulations) and motivational tools (especially tax-relieves, co-financing) it should try mainly to initiate the increase in housing quality (regeneration of the housing stock). This approach can enhance investors' interest, increase employment and facilitate income for their citizens.

Municipal functions in the housing area are very diverse. The municipality as such is a beneficiary of the state housing policy, since some tools and legal standards rely on authority and activity of municipality. The municipality is, and always will remain, a social economic entity and thus it is not expected that it would treat its citizens in a market manner. Housing development and its increased quality is related, in any case, to local economic and social status of inhabitants and with gradual urbanization and investment development in various municipalities and regions (transport accessibility, school system, health system, job opportunities, etc.). As a part of housing development, the municipality can undertake two tasks: to help housing development (determination of the territory in the Physical Planning Documentation and details in zonal planning) and to facilitate directly or through other entities (especially NGOs) adequate housing for protected and lower income groups. These tasks can only be performed through their own initiative as part of independent initiatives. In fact, it has been possible only since 2001, since the governmental program for local rental housing was approved in 1999.

The need to facilitate adequate housing has recently become a subject of negotiations between outstanding international institutions such as UN, EU, WHO and others. At the same time they are reflected in clearly formulated tasks included in approved documents, fulfillment of which is directly related to municipal self-government. The majority of municipalities do not admit their responsibility for housing development, since the Act on Municipal Constitution does not impose it as an obligation. The preparation of the strategy on municipal housing development, therefore, can be understood as an optional task. Municipality inevitably needs it as a prerequisite for housing market development on its territory, especially in relation to the significance of housing for citizens' life and overall quality of living conditions. Otherwise, the development is not an organized process based on processed analysis and conclusions. The fact is that there are already a number of new apartments vacant for a long time, which are very difficult to sell (due to the incorrect municipal management and in-sufficient marketing policy of constructors).

The role of municipality is not the one of providing housing for all inhabitants, but creating conditions for housing development within the frame of overall territorial development and in cooperation with central government assists those, who are not able to find suitable housing on the market. Municipalities should be interested in

occupation (use) of their dwellings, since they may significantly decrease calculation of needs for new housing construction and investment into technical infrastructure for new plots. People living in “black market” rented apartments actually have no legal relationship to that apartment and their permanent residence is registered with another household or in another place.

Any capital invested into the construction should always bring returns plus profit; otherwise, it cannot be beneficial and must be compensated for in some way (through a subsidy or its own consumption). Thus, a municipality must take the initiative to influence the offer of a housing market, so that it responds to a broad spectrum of differentiated qualities and price due to demand, which is dependent upon the income capacity of the citizens. Such a closed circle is directly related to the purpose of the municipalities’ independent activities, which is based mainly on provision of balanced economic, social and cultural development of the municipality as a whole.

The role of the public sector based on social solidarity starts when the housing market fails and a citizen is not able to afford adequate housing. Its functioning is based on certain limitations (maximum effectiveness of the public source use, regulation of investment costs in relation to stipulation of adequate quality standard). As a part of the housing market with various segments of supply (spatial standard + standard of furnishing and price differentiation), housing for low-income groups and specific social groups of citizens form just one part of the supply which may apply significant elements of regulation in the process of investing and operating. Implementation of such intentions can only take place at the municipal level, where regional influences must be balanced, too.

The law allows municipalities within the scope of independent activities to process sufficient documents for housing development: a housing development strategy, municipal housing policy, implementation rules and particular steps within the framework of development action plans. Those must take into consideration territorial capacity, economic and social prerequisites in relation to development needs based on demographic and other development trends. It is the fact, that municipalities have not applied this capacity to a sufficient extent within the scope of independent activities.

The Housing Institute realized a survey on privatization, management of municipal assets, and development of municipality in all 2,867 municipalities in 1999 (rate of return was 68.15%). The municipalities were divided into categories according to the number of inhabitants (see Table 6.7).

This survey brought the basic information about process of privatization and housing development. The preparation of the strategies was very rare and insufficient. One of the problems on local level was insufficient information in area of using the local asset (including the housing) and the economic effect for municipality.

Even the Local Government Housing Survey (LGHS) performed within the framework of this project in all municipalities with more than 5,000 of inhabitants proved

that the situation in the conceptual approach to housing management on the level of municipalities is not very good.⁴ Municipal self-governments are underestimating the significance of housing policy as a basic conceptual document of the overall municipal development.

According to the LGHS, a housing policy strategy was approved by municipal representatives only in 39.3% of the municipalities; 21.7% of municipalities have elaborated a housing policy strategy, which has not been approved by municipal representatives; and 39.6% of municipalities do not have a housing policy strategy at all.

Table 6.7
Privatization and Management of Municipal Assets

Size Category of Municipality Based on Number of Citizens	Up to 300	Up to 500	Up to 1,000	Up to 5,000	More then 5,000	More then 25,000
Returned questionnaires	437	372	532	519	66	30
I. PRIVATIZATION [%]						
Municipality owned rental housing	7.1	7.8	27.2	63.4	98.5	100
Privatization is ongoing	4.1	5.6	16.5	42.0	90.9	93.9
Privatization is finished	14.3	15.3	16.5	27.2	6.1	6.6
II. HOW DID MUNICIPALITY USE THE FINANCIAL SOURCES FROM HOUSING PRIVATIZATION? [%]						
For reconstruction of housing stock	0.7	1.3	1.5	10.0	34.8	43.3
For new construction of housing	0.7	0.8	1.1	5.0	42.4	33.3
For reconstruction of houses in ownership of inhabitants (co-financing or subsidy, grants)	1.4	1.3	1.8	1.9	6.1	13.3
For local infrastructure	0.7	1.1	5.1	17.1	13.8	46.6
For construction of new housing for inhabitant ownership	1.8	0.8	2.4	4.0	21.2	30.0
For other purposes	2.1	0.8	3.0	9.3	6.1	20.0
III. MUNICIPAL ASSET [%]						
The statement of own asset	96.3	97.0	98.3	98.3	100.0	93.3
The analysis about effectiveness of using this asset	37.2	33.6	32.9	31.6	33.3	53.3
Summary about income and costs for using this asset	48.3	52.7	55.8	57.6	62.1	80.0
Evidence about ownership and all owners in municipal territory	79.8	64.1	83.6	85.2	95.4	90.0

Table 6.7 (continued)
Privatization and Management of Municipal Assets

Size Category of Municipality Based on Number of Citizens	Up to 300	Up to 500	Up to 1,000	Up to 5,000	More then 5,000	More then 25,000
IV. DEVELOPMENT OF MUNICIPALITY [%]						
Registration of new housing applicants	35.2	48.6	54.9	68.6	90.9	90.0
Overlooks financial solvency of applicants —interest for different standard and quality of new housing	13.1	12.1	13.2	14.3	28.8	20.0
Conception of local development	18.6	32.5	33.6	45.8	75.7	73.3
Conception of local housing policy	6.6	13.7	13.7	20.4	57.6	50.0
Conception of land policy	17.2	17.7	17.7	27.2	36.4	36.6
Adopted physical plan	15.4	24.2	28.2	40.5	65.1	70.0
Regulation of individual zones for development	6.9	14.2	19.2	25.0	57.6	70.0

SOURCE: Housing Institute Survey in Year 1999.

In the structure based on the size of the municipalities, the highest portion of municipalities claiming that they have developed and approved a housing policy is recorded in the case of municipalities with a higher number of inhabitants (20–50,000—47% and 50–100,000—66%). Among municipalities with 10–20,000 inhabitants, 53% of them stated that they have not processed a housing policy strategy at all. In the capital, Bratislava, just three municipal parts (out of 12 who filled in the questionnaire) have processed and approved a housing policy strategy.

It is interesting to note that stipulation of main goals of housing policy is not always connected with the notion of the housing policy document; higher number of municipalities state that they have stipulated their goals (however, they have not developed a housing policy strategy):

- More than half (52.3%) of municipalities have clearly stated goals;
- More than one fourth (28.7%) have a perspective of goals that are not sufficiently formulated;
- Only 19% of the municipalities have not stated their main goals of housing policy (though 40% do not have a housing policy strategy).

It is possible to imply that local self-governments most likely have not developed clear methods and procedures and do not dispose by professional capacity for development

of complex strategic housing policy documents. It may be assumed that known goals are formulated more in a verbal form than in some quantitative way.

The most frequently stated goal of municipality housing policy was construction of rental apartments, provision of land and technical facilitation of construction, construction of rental apartments for specific types of households, support of apartment construction for private ownership, construction of lower standard rental apartments and maintenance and renewal of housing stock. The ranking based on significance showed that the priority goal is construction of rental apartments, provision of land and technical facilitation of construction.

The scope of above-mentioned goals is quite diversified and points out to following facts:

- While facilitating housing development, particular municipalities are facing various problems related to existing housing stock, social-economic situation of inhabitants and varied intensity of housing demand;
- Prospects of how to formulate housing policy goals vary—the scale contains qualitative and quantitative goals, from generic goals defining strategic intent all the way to partial ones typical for action plans;
- The municipalities vary in their understanding of housing policy—some of them are oriented solely on the segment of rental housing, while others correctly understood that they should focus on the entire process of housing development including conditions for construction (technical infrastructure and land);
- Housing policy of municipalities is mainly oriented on new construction, whilst maintenance, renewal of existing housing stock and improved administration management is marginalized.

Better understanding of opinions gathered from local self-governments on significance of goals is provided in the answers to the question, where goals have been listed (fixed list of housing policy goals).

A summary of the answers suggests the following:

- Regardless of the size of municipality, the agreement was reached that the priority is to increase access to housing for medium- and low-income households;
- The majority of municipalities agrees that the second most crucial goal is to increase quality of housing and improve housing conditions;
- In case of the rest of the goals, the accordance of opinions on their significance is not so remarkable.

Mentioned ranking confirms that:

- Issue of housing for elderly is marginalized (especially in case of municipalities with 50–100,000 of inhabitants);
- Municipalities do not perceive care for housing for the homeless persons as important (especially in municipalities with 20–50,000 of inhabitants);

- Labor/tenant mobility is not yet considered an issue, due to remaining low mobility of citizens (mainly in cities Kosice and Bratislava, this goal came last);
- Non-adaptable persons are more likely to be separated than integrated (in all size categories of municipalities, the goal “maintenance and creation of social mix preventing from social segregation” came on the last or the one-before-last place).
- Very little attention is paid to the improvement of housing management (especially in municipalities with 10–20,000 of inhabitants on 8th place).

To make this approach really work, all the entities must contribute, since such forms basically require a new type of active thinking, knowledge, coordination and communication. A new space is being created for a so-called *public-private partnership* that forms an outstanding development tool in EU countries (it played an important role e.g. in the development of Ireland). Public-private partnership can help the municipality to activate further partners as well as financial resources for fulfillment of development plans.

Table 6.8
Local Government Housing Policy Objectives

Goal	Size Category of Municipality—Population [Thousands]					
	5-10	10-20	20-50	50-100	Over 100	Total
	Ranking of Significance (1 the Most Significant)					
Higher affordability of housing for middle- and low-income households	1	1	1	1	1	1
Higher quality of housing (improvement of housing conditions)	2	3	2	3	2	2
Support apartment ownership and/or construction of apartments for private ownership	3	2	4	2	3	3
To meet specific shortages for persons with disabilities	5	4	3	4	3	4
To meet specific shortages for elderly	4	5	5	8	6	5
Tenant participation	6	8	7	6	5	6
To meet specific shortages for homeless	7	6	9	5	7	7
Higher labor/tenant mobility	7	7	6	7	9	8
Maintenance or creation of social mix preventing from social segregation	9	9	8	9	8	9

SOURCE: LGHS.

Box 6.2

Public–Private Partnership as a Development Tool

The Association of Private Developers of Slovakia (ASSPS) realized, together with the municipality Skalica, a housing construction through public-private partnership. It involved a cooperation of several entities developing new apartments and family houses including construction of the necessary infrastructure. The municipality negotiated with the private company INA about co-financing of apartment construction. The apartments should have served for employees of this company with higher- or medium-standard, furthermore, there should be apartments in citizen ownership bought with assistance of loans from the State Housing Development Fund and finally some of them should be rental municipal apartments co-financed by State and municipal funding. The INA company abandoned the project throughout the course of preparation, however, the municipality together with citizens managed to complete it. Within the construction area, land for construction of private family houses was prepared that is gradually being developed based on interest and capacities of future owners. Since this construction made use of public funding, the whole event was prepared in cooperation with ASSPS via public tender and selection of supplier took form of public competition separately applied on construction of infrastructure and subsequently on housing construction. As a result, a higher quality of construction supply was achieved together with acceptable price. The entire process was presented as an example on various specialized events and seminars for municipalities, which may apply a similar approach in order to facilitate transparency.

Overall housing cost determines the ability of various social groups of citizens to procure adequate housing on housing market and pay for all necessary cost—i.e. rent and utilities. The Act on Municipal Constitution stipulates that municipalities are responsible for provision of public advantageous services. That further implies their co-responsibility for overall economic and qualitative conditions of housing in the area, which has influence for its further development.

Currently, cost of utilities and services related to housing form around 90% of the total cost of apartment use. Net rental payment forms approximately 10% of the total cost for housing and, together with maintenance and other direct services, it forms approximately 25% of the total costs. Municipalities may directly influence the price for supply of heating, hot water and waste removal, since those are either municipal companies or commercial enterprises operating with municipal financial support or enterprises directly established by municipalities. The costs of local services are not regulated by the State, therefore there are great differences in prices (from 170–650 SK (USD 3.5–13.5) per person and year).

Heating and hot water currently represent the largest expense of all the payments. The State has been regulating the price for heating through stipulation of the maximum price for heat and hot water (current price is SK 450 (USD 9.4) per 1 GJ, in case of a higher price, the state subsidies are provided in order to facilitate balance. Such cases are strictly controlled directly by the Ministry of Finance. The price, which is calculated based on a calculation formula set by the Ministry of Finance, is controlled and approved by the District Offices that, however, generally do not verify eligibility of individual

items applied in the formula. Current prices of heating are from 214–450 SK (USD 4.5–9.4) per 1 GJ.

The creation of the competitive environment and regulatory policy at the state level as well as on the level of the municipality is one of important ways to increase the quality of services and decrease their prices. It is possible to claim that is not usually used in practice. These circumstances should be taken into consideration by the representatives of citizens as well as by professional staff of self-governments when drafting and approving all documents and conceptions on development of municipal life. Only a few municipal representatives realize their capacities to coordinate and control development of prices for services. In contrast, we frequently witness an extensive growth in a local monopoly formed with consent or assistance of self-government for citizens' disadvantage. As long as groups with lower- or medium-income will be burdened with higher payments for services and utilities, there will be no space left for gradual introduction of more realistic rental payments. Moreover, without such prerequisite, we cannot count with sufficient interest on construction of rental apartments.

Equally disadvantageous for citizens are two facts that can be identified on the local, as well as state, level. First of all, it is the low awareness of citizens and related inability to demand clear rules, explanations and control over activities of elected representatives. Here only the small activity of voluntary organizations plays a great role in information field and also organization of consumers. Secondly, it is personal and collective interests of local and national representatives' groups enforced in the local and state policy through the use of municipal property, municipal institutions and the State, so far not privatized companies (lobby).

Box 6.3

Municipal Policy for Service Provision—Waste Removal in Trnava

Trnava town produces approximately 30 thousand tons of communal waste a year. A former dumpsite, situated 15 km from the town was technically and ecologically not viable. The construction of a suitable dumpsite was regarded as a strategic problem of the town that the municipal self-government needed to solve.

Having collected the necessary amount of information on technologies and companies, municipality evaluated all of it and produced two alternatives. Out of those, municipal representatives adopted the alternative of constructing ecologically adequate dumpsite on municipal property. A construction was financed from municipal bonds, while it was planned that it will be a municipal property. In order to operate the dumpsite, municipality established a company together with foreign enterprise, which brought joint venture as well as operational capital. The municipality decided to keep 50% of ownership share in this company, which forms sufficient space for implementation of conception aimed at improved service quality and acceptable price for their provision. An important part was played by the municipality's clear strategy for provision of higher quality services for reasonable price to citizens.

For comparison: current annual price for waste removal for one person in Trnava is SK 170 (USD 3.5), while in Kosice it is SK 650 (USD 13.5).

3.2 Local Governmental Housing

In 1999, municipalities managed to gain the public rental sector with a deformed system of use, free of charge. Unfortunately, the State has not created for them sufficient legal and financial environment for development of public rental sector, which would enable them to really enhance this sector. Thus, municipalities were limited by regulatory State policy in the area of price policy, which still has not managed to eliminate deformations of legal character and complications of investment process related to definition of conditions for use of public rental sector.

3.2.1 Overview

Based on LGHS, the apartments owned by municipalities (with a number of inhabitants over 5,000) formed 5.7% of the total housing stock in 2001. The intensity of the transfer of apartments according to Act. 182//1993 Coll. on Ownership of Residential and Non-Residential Premises as amended, varied. Besides, the starting basis of municipal apartment ownership varied considerably, too—in smaller municipalities, the share of private apartment ownership in family houses was much higher even in 1989. The factors mentioned above are related to varying intensity of citizens' interest and interest of municipalities in apartment transfer, which subsequently meant that even in municipalities of the same size, the portion of municipal apartments in housing stock is different. The results of questionnaire survey do not imply any cause dependence between the size of municipality and portion of municipal apartments in housing stock. In general, a tendency of the growing portion of apartments in private ownership of citizens with increasing size of municipality was confirmed, with exception of cities (Bratislava, Kosice in the category over 100,000 inhabitants). In the regional division, municipalities of Nitra region generated an extremely high portion of municipal apartments (in all size groups, apart from municipalities with 5–10,000 inhabitants), so did Presov (in all size groups) and Trnava regions (in the group of municipalities with 10–20,000 inhabitants and 50–100,000).

The average size of apartments in municipal ownership (area of the apartment and number of rooms) vary significantly, too. The results of the LGHS show that municipal apartments have two rooms on average (the mean figure per whole sample is 1.76–2.44, the average per whole sample is 1.91 rooms). If we compare this figure with the size structure of apartments in standardized construction units in apartment houses, where more than 50% of apartments have three rooms and more, we may conclude, that throughout the transfer process the majority of the latter ones had been transferred into the private ownership. That implies that municipalities will face great difficulties with accommodating larger families in the residual housing stock.

Unfortunately, such families prevail among the socially unprivileged ones, thus dependent on rental housing.

Average habitable area of the apartment in municipal ownership is closely connected to the above-mentioned average number of rooms per apartment. The average area of 43.1 m² per apartment indicates that municipalities own mainly apartments with relatively smaller area now. There is a tendency towards a decrease in the average area of apartments with increasing size of municipality (with the exception of the capital Bratislava).

According to the LGHS, apartments with four and more rooms form only 7.8% of municipal housing stock; kitchenette apartments, one-room and two-room apartments form 57.7% of municipal housing stock. The number of apartments with three-room exceeds the average in Kosice (39%) and some municipal parts of Bratislava (Devinska Nova Ves—44%, Karlova Ves—65% and Petrzalka—51%). These municipal parts contain the newest housing estates, where structure of housing stock based on the number of rooms may differ from the structure of older housing estates. In the housing stock of Bratislava municipality, the number of four-room apartments is more than double the portion in Kosice and municipalities of smaller size categories, even the portion of kitchenette apartments is higher than in other municipalities. We may conclude that the structure of housing stock owned by Bratislava municipality is specific when compared with the other municipalities.

3.2.2 Vacancies, Rental Strategies, Arrears and Housing Management

Municipalities have no difficulties with occupation of their apartments; they register only 0.3% vacant serviceable apartments (voids). Almost half of them are registered in the municipality Novaky (Trencin region, population of 4,402 inhabitants), while the main reason is deemed to be specific situation of the town followed by the outflow of young people (the situation in the use of municipal housing stock is considered abnormal).

The amount of rent loss due to the voids is therefore negligible; the entire sample group produced the loss of only 0.88% of the gross rent roll in 2000. Municipalities find allocation of apartments based on a waiting list (36% answers) and sale of apartments (24% answers) to be the most efficient way to solve the problem with voids.

However, the situation in rent payments is worse. Based on LGHS, we may infer that the average rent loss through rent arrears formed 20.2% of the gross rent roll in 2000 (only rent arrears from the year of 2000 were counted and no arrears from previous years were taken into account). The size of the amount is probably related mainly to the economic situation of tenants in particular municipalities: Banska Bystrica, Presov and Kosice regions record extremely high rates of unemployment, low average wages and extremely high portion of rent defaults. No correlation between the size category of municipalities and portion of defaults had been proven.

In general, local self-governments are not optimistic about the resolution of the defaulters' problem, they even expect a moderate increase in rent arrears in 2001 (22% of gross rent roll). The municipalities find prosecution of claimed debts and termination of rental contracts to be the most efficient means for resolution of problems with rent payment defaults (59% of answers). However, both ways are lengthy and the amended Civil Code stipulates the obligation of providing various kinds of substituted (alternative) housing (with various deadlines). Furthermore, municipalities prefer agreements on recognition of debt and installment calendar (12% of answers), to personal negotiations and collection letters (14% of answers).

One of the factors restricting the resolution of the defaulters' issue is the minimum movement of tenants in rented apartments. Municipalities state that the annual share of re-let apartments on the total of municipal housing stock was only 2.7% in 2000. The higher turnover was only recorded in municipalities with an extremely high portion of rent payment defaults (Kosice city, Prievidza). The question was answered only by 41% of municipalities (the others probably did not record any re-lets at all).

Stipulation of differing amounts of rent is restricted. The maximum rental price (rent ceiling) in apartments built before the year 2001 is regulated by the State (based on qualitative category of apartment). Current valid maximum rental prices in existing apartments can be sufficient for financing of regular maintenance and small repairs, but not for financing substantial renovations. Municipalities, therefore, have to either postpone repair works or finance them from municipal funding.

Room for maneuvering for a municipality calculating the rent is very restricted, since any decrease of rent below the maximum price would worsen the situation for a generation of resources for maintenance and repair (stipulated maximum price is already below the margin of the cost for such works). In the case of apartments built after 2001, thanks to state subsidy as part of the rental apartment construction program, there is more space for consideration of various viewpoints when calculating the rent (maximum price is set at 5% of procurement costs, which is roughly a margin of cost rent). Even in such cases, municipalities will have to take tenants' solvency into consideration. Based on questionnaire survey, we can assume that only a minimum number of municipalities use various systems for determining the rent amount (just 12% of municipalities stated that they use various calculations for rent calculation).

According to the LGHS, 22.6% of municipalities answered that rental payment covers costs incurred for maintenance, inevitable repair and administration. It is highly likely that works are adapted to collected rent payment with consequences in the form of continuing negligence of housing stock care (or they own new apartment houses). This conclusion is supported by the answers to the question, whether they consider rent payment sufficient to cover open-minded cost of repairs, maintenance and modernization. Only 16.2% of municipalities answered in a positive manner.

The basic document for allocation of apartments is a list of applicants: 91% of municipalities keep a waiting list of applicants. Objective approach and quality of the

system of allocation of municipal rental apartments can be considered insufficient. Just 44% of the municipalities state that they have a clear grading system for measuring social need as a criterion for apartment allocation. Differentiation of apartment allocation policy for various groups of applicants (e.g. for defaulters, non-adaptable citizens, elderly, socially dependent, young families) is not an ordinary practice used in self-governments' decision-making. Only 17% of municipalities stated that they use different policies of apartment allocation.

Administration and maintenance of housing stock is facilitated in various manners depending on municipality. Most frequently, municipalities delegated administration to a budgetary or corporate organization of municipality and/or to a private management firm. Following is the frequency of housing management types (manager entities) applied by Slovakian municipalities:

- Municipality itself: 13.5% of municipalities;
- Budgetary organization: 29.5% of municipalities;
- Other business entity: 28.7% of municipalities;
- Private management firm: 27.2% of municipalities;
- Private real estate agency: 1.1% of municipalities.

We find the decision to delegate administration of housing stock to a professional local organization justified, since municipality is able to secure its direct relevant decision-making authorities in such organizations. In private management firms, municipalities may apply their decisions and retain the same control as any other owner has; however, they do not have to employ professional staff. Currently, such private organizations are working more efficiently, since they are free of old practices used in the former housing companies. The answers imply that there is no obvious correlation between the way of facilitating housing stock administration and the size of municipality.

In the answer to the question about municipal initiatives in the field of housing conditions' improvement, municipalities recommended a whole range of measures starting from strategic solutions to partial action programs, from construction technical solutions to financial tools. Having grouped the incentives into the clusters based on similar contents, the results are as follows:

- a) Cheaper forms of housing construction;
 - Use of roofs and attics (built-in constructions and superstructures);
 - Reconstruction of non-residential premises;
 - Organization of reconstruction and thermal insulation;
 - Reconstruction of devastated apartments.

- b) Generation of sufficient housing stock for specific groups of households;
 - Starting apartments for young families;
 - Small apartments (for single-member households and defaulters);

- Housing units, emergency and temporary housing (for defaulters, homeless);
 - Social apartments with lower standard (for socially unprivileged households and non-adaptable citizens);
 - Special apartments for persons with physical disabilities and elderly (homes with care-takers);
 - Housing for Roma population, on condition that they manually help with the construction.
- c) Financial tools;
- Financial support of municipality for future private owners of apartments and for those who reconstruct their apartments;
 - Non-recurring subsidy of municipality for home-ownership construction;
 - Cumulating of finances for development of technical facilities (municipality, owner, administration of technical facilities);
 - Sale of municipal apartments through installments;
 - Use of state subsidies and loans from the State Housing Fund.
- d) Non-financial support initiatives from municipalities for home-ownership construction;
- Formation of sufficient land capacity for construction;
 - Sale of municipal land for construction;
 - Formation of long-term land capacity within the physical plan;
 - Development of infrastructure in places for future housing construction.
- e) Formation of conditions for sensible use of rental housing stock;
- Conclusion of rental contract for definite period of time;
 - Facilitation of tenants' participation in administration of house and apartment;
 - Introduction of mechanisms controlling use of apartments;
 - Higher quality house administration, maintenance and repair of houses and apartments;
 - Raising rental payments within the limits of maximum price for rent;
 - Displacement of defaulters into apartments with minimum standard.
- f) Improved housing development management;
- Development of policy and program of construction and reproduction of rental housing stock;
 - Development of housing strategy within a physical plan.

- g) Others;
- Cooperation with foreign partners;
 - Sale of apartments in business tender;
 - Association of non-adaptable citizens;
 - Improved activity of housing commissions.

The evaluation of a self-government's performance also covers the overall capacity to manage and organize municipal development (including housing development). After 1989, newly elected representatives, including the staff of self-government bodies, were not sufficiently prepared for their tasks related to transformation of social and economic spheres. They became responsible for development, for their own business activities, for management of public funds and, in many cases, even for management of large volumes of mobile and immobile property. It is important to note that property values recorded significant changes in real values during a very short period, which was caused by introduction of economic assessment system. That is why the majority of activities were performed in more intuitive ways rather than based on some theoretical knowledge of practical experience.

Performance of self-administration and results in many cases prove the existence of a differentiated approach of local politicians to resolution of various problems. However, self-governments of Slovakia belong among those organizations that made a significant step forward (even though they made a lot of mistakes, inconvenience or imperfections).

One of the major issues of self-government is a relationship of elected representatives and professional staff of the Municipal Office. Political parties have not yet started to prepare elected representatives and their subsequent training so that they are able to adopt and approve professional proposals. To the contrary, the majority of political parties do not pay any attention to the destiny of elected representatives, since political culture is at a very low level.

All these circumstances are related to housing development and its individual parts. Representatives have not been acquainted to principles of investment process and, therefore, any kind of decision-making based on economic analysis is equally unknown to them, as are questions of economic efficiency of management with public funding. Thus, in many cases, group interests are preferred together with speculative procedures hidden behind "lobbying", while business activities are frequently masked, for public interests, behind private business via public funding.

There are two organizations of municipalities in Slovakia: the Association of Municipalities (ZMOS) and the Union of Municipalities of Slovakia (UMS). Neither of the above-mentioned organizations has a training center that could provide permanent education for elected representatives as well as for professionals from various authorities. This situation gave rise to new organizations of occupational character (local economists, heads of offices), established for the purpose of replacement of domestic and foreign experience.

3.3 Social Context of Rental Housing and Social Housing

Rental housing in the form of social housing (or special forms for vulnerable groups) will concern persons in long-term material distress, persons living within State defined limits of poverty, including a special category of homeless. An independent category that needs to be considered is elderly people dependent on various types of social care institutions. Young people who need to be given a chance to obtain their own housing form another group. In both cases, modern ways of resolving their housing situations lead to formation of the best possible conditions of regular “non-institutional” housing. There are not yet serious examples of this solution in Slovakia, while the new programs only started in 2001.

Modeling of expected housing demands to serve as a basis for development of local housing policy in terms of social aspects for a particular municipality is a demanding task due to various relations within the system of social economic development and lack of information. It is mainly caused by the fact that a principal database is missing, which could at least indirectly monitor the expected range of such need in the population of a particular municipality. Accessible statistical data are not able to cover the inevitable database in this sphere. The data monitored by municipalities allows for only indirect and fragmental estimates on requirements related to housing issue (not only in terms of rental housing).

Experience gained from the field analysis prove that existing accessible data allow for characterization of:

- Basic social demographic features of community, or expected demographic development of this community, which is a significant context index of possible “pressures” on resolution of housing problem in the town;
- Migration balance which is completed by the situation in demographic development of the citizens and it is necessary to include it when thinking about claims related to housing or housing needs.

In order to define expected housing need (even with regard to differentiation of claims) the social differentiation reflecting present social stratification is an important factor. Analytical information of this kind, however, is not accessible, since it can be only obtained through research. The same was proved in Trnava municipality, which was later used in other tasks as a model for monitoring of expected development in housing situation. The data on social situation in the municipality are very fragmented and limited.

Information, partially gathered from censuses and partially from registration accessible at District Offices and municipalities, however, do not provide a complete answer to the question of citizens’ ability to find adequate housing in a respective municipality. Furthermore, it is not clear what are the preferences, what is the “purchasing

power”. In order to form a local housing policy, it is inevitable that we will monitor the housing situation, and expected housing needs, in a particular municipality and mutually analyze housing, employment and social conditions.

Box 6.4

Social Situation in Municipality Trnava

Based on above-mentioned findings from Trnava municipality, we can conclude the following: Of the total number of permanent residents of Trnava (69,511 persons) based on the census from May 2001, the economically active population formed 52.2% of the population (36,257 persons). The important data is the fact that the municipality had 5,601 unemployed persons at that time, which equals 13.4%. Another significant bit of information is that on July 30, 2001, Trnava District Office registered 3,200 persons in material distress within the limits of Trnava town. This is 4.6% of the total population of Trnava. If we consider the fact that material distress is an especially threatening category of long-term unemployed, it shows that 57.1% of the category of unemployed could possibly belong to the later group. The municipality registered 6,500 persons benefiting from social allowance. Out of these beneficiaries, 600 persons were receiving housing allowance (9.2%). It is highly likely that a major part of social allowance beneficiaries overlap with the group of unemployed. The above-mentioned data implies what potential persons in a municipality might be in the situation close to rental social housing (regardless of the fact where they live now). It is the warning signal of an ever-growing category of these persons and subsequent pressure on social housing needs unless the social economic situation starts to improve and lead, at least partially, to breakaway from this marginalized position.

Process of housing need monitoring is inevitably done to obtain a realistic picture of a respective municipality that wishes to process and implement its own housing policy strategy corresponding with housing market development. The monitoring process should observe and evaluate the following:

- Existing statistical information (data), gathered by statistical agencies, completed with further necessary data;
- Information and data gathered by public administration institutions (Regional Development Departments, Construction Departments, Social Departments, etc.);
- To perform and evaluate own research, while preparation of methods, implementation and evaluation should be processed by relevant professional staff of the self-government;
- Further necessary data (such as dropouts of housing stock in order to be able to quantify replacement), focusing on current and expected housing needs.

4. CONCLUSIONS AND RECOMMENDATIONS

As before, housing development in Slovakia, including the rental sector for lower- and medium-income groups, will require that the government include it among the priorities of economic and social development. This is the only way for all the support instruments of its development to be fully applied. However, the process of transformation of the whole system of the housing market development will have to be completed with respect to legislation as well as the organizational, institutional and educational areas. The tasks concern all the partners of the process; the central government, self-governments, business and not-for-profit entities, but—above all—the citizens, as such. The latter namely also act as workers of all the above institutions mentioned.

The long awaited amendment to the Civil Code has introduced some improvements in 2001. Among others, it pronouncedly changed the rights and responsibilities of owners and tenants, introduced changes into the termination of rental relationships (mainly in connection with the landlord's duty to find a substituted/alternative housing). Those changes could help also to facilitate the dealing with the increasing problem of delinquency in rental housing. In dealing with the specific cases, however, serious social cases will have to be distinguished from "negligence" by managers of municipal rental housing. The possibility of granting housing allowance to those suffering from severe social problems may be considered, which presently is not allowed. It is necessary to finalize the role of State and local administration in cases even if previous payments have not been realized, provided that the arrears will be gradually settled. This will require amendments to the Housing Allowance Act. It is possible to transfer the competence on housing allowances allocation to municipality self-government. In other cases, the situation may be dealt with by terminating the rental relationship pursuant to the amendment to the Civil Code. The efficiency of the amendment mentioned will be checked by its practical application as well as by the courage of municipalities to radically deal with the problems of delinquency. To be able to apply a radical procedure, municipalities will have to set up a "backyard" that will enable them to allocate a lower standard housing to delinquents (shelters), acquired either by new construction or by reconstruction of other structures.

The government program for construction of rental housing for the socially underprivileged low-income groups disclosed a number of problems connected with the housing construction. The construction of such housing is based on a combination of credit-based and subsidies-based program that municipalities may participate in. Municipalities, being legal entities, represent a certain warranty to the State (municipalities guarantee by their property or e.g. their future budgets) that the projects will actually be implemented. In a majority of cases, municipal governments have no professional capacities to provide the extensive capital investment activities; they are

not even expected to do so in the framework of their facultative tasks. Consequently, the need to establish organizations is being stressed to take care of capital investment activities and to also manage and administer the rental apartment houses built. In this connection, the fact has to be respected that the financing of rental housing is comprised of subsidies and credits that will have to be discharged from rents. If not, they will have to be covered from other sources, e.g. municipal budgets. The establishment of not-for-profit organizations or organizations of public benefit is recommended to assume all the responsibilities and to take care, in working together with the municipality concerned, of the further development of rental housing. They are expected to be highly professional organizations at the same time whose activities should be conditioned by the licensing. During the first stage, amendment to the Public Benefit Organizations Act is expected (prepared in 2001—not yet approved), the legal regulation of accounting in this type of organizations remains out of sight.

Connected open problem with not-for-profit organizations is the current system of housing cooperatives with respect to which transformation pursuant to Act 42/1992 has not been brought to an end. This has resulted in ownership relationships of cooperative members to their apartments and the property of the cooperative being not yet settled. This also concerns land used permanently by cooperatives but not transferred upon them free of charge as provided for by law. Such opportunities are now already subject to the statute of limitation. Problems also concern the management of the various funds, property settlements with members, adoption of new by-laws, as well as a number of other partial issues. The present system does not allow the original intention to be realized, namely to split cooperatives into smaller viable units.

The system of housing cooperatives as such requires a principal political solution, a clear-cut decision through legislation:

- Either the State is going to respect them in the future, as one form that used to be rather efficient, for instance, during the times of the Austro-Hungarian Empire and the first republic (amendment to the Business Code or separate cooperative law will be needed in this case), or
- They should be dissolved by the law to prevent fraudulent appropriation of entrusted property. If the State decides to keep the system in place, the legal framework for its transformation and further existence should be completed, including support instruments (Section 1 of Commercial Code allows provision to members of also activities other than commercial, e.g. social).

The supply-side subsidies for housing construction appear to be necessary because of the income situation of municipalities and individuals. They can be gradually replaced by demand-side subsidies paid to users in the form of a housing allowances (introduced in 2000). At the same time, competencies with respect to allocation and control of housing allowance can devolve upon municipalities that—as it appears today—are able

to exercise control of the eligibility of persons with respect to the allowance much more efficiently than do the state authorities.

During the preparatory process of the construction, construction deliveries have to be tendered, as is generally realized under Law No. 557/2001 COLL. In a majority of cases, no results are published. It would be efficient if the Public Procurement Authority published data on the budgets of all projects of rental housing realized (where public funds have been contributed) as is the case in Austria, Germany, etc. The database would then serve for the purposes of control and comparison of costs, to disclose hidden reserves and to exert pressure to increase the efficiency of spending of public funds. The Authority has so far been overseeing such practices.

Rental price regulation and support of the development of the rental sector owned by municipalities is based on subsidizing both the demand and the supply side. This is presently unavoidable because of the insufficient growth of maximum prices of regulated rents. The government must expediently subject regulation of rents to objective criteria and abolish regulation with respect to private owners of buildings (tasks from the approved State Housing Policy). It is unclear how the situation is going to develop during the next election period as the social situation only shows slow improvement rates and the inflow of investments needed will depend on the economic growth and the stability of the political situation.

Three years ago, the Ministry of Construction and Public Works developed a draft of the new Housing Act that was withdrawn because of a number of comments. It lacked a clear conception. The group of topical issues that exist today concerning the rental housing construction program would require a new act or a regulation to regulate the condition of rental relationships in accordance with the Civil Code, specifically with respect to units in public rental housing.

Many issues have remained open in connection with the construction and operation of the public rental sector built up under the assistance of state subsidies. Such housing may be allocated to families whose income does not exceed three times the subsistence minimum. The following, however, must be solved:

- What to do with tenants who, during the period of their using the unit, exceeded the income ceiling set as the condition for the granting of state subsidies for construction;
- What will happen if the income increases, and up to what level of income the user will be expected to pay rent to cover the costs, and where is the threshold beyond which rents could be negotiated freely?

Lacking are legal definitions of protected groups of the population for whom housing has to be provided (e.g. the homeless, elderly people, children from children's home, the disabled, etc.). Standards (either related to space, equipment and mainly to financial support) cannot be regulated in any way unless such definitions and all connected

questions are in place. There is a task that each Ministry must prepare units or standards by 2004, when the financial decentralization will be finished. Lower-tier self-governments, however, will not be able to deal with their tasks under the gradual decentralization of competencies without having such measures in place, particularly if cooperation with the private or not-for-profit sector is required. The sooner equal access to tenders, on the part of the public and private sector, for providing services is itself provided, the better it will be.

The principal strategy is lacking with respect to the housing of the elderly: it remains unclear what resources should be used to finance accommodation capacities and the connected services of this type. Many countries combine various types of insurance (health—nursing, social and pension insurance) and they also clearly account for the property-related and family status of the person in question. In Slovakia, the problem must be addressed under the insurance system reform (legislation is now in the parliament).

At present, state financial support instruments intended for the development of privately owned housing appears complete when viewed from the aspect of incentives for utilization of loans (construction savings, mortgages, the State Housing Development Fund (SHDF). The issues of the efficiency of the utilization of public funds for these purposes are opened. With the exception of loans under SHDF, support is granted irrespective of the applicant's income.

It will be important to analyze the effectiveness of financial support and decide about the following—whether:

- The premium paid to participants in construction savings schemes should not be based on income testing;
- The state interest subsidies on mortgage loans should be adjusted in a principal manners.

What are completely lacking are tax-related instruments that would make investments into housing subject to tax concessions. The Slovak Ministry of Finances should also expediently pay attention to this field in connection with permanent adjustments of the taxation system.

At present, the State has not a single research institution that would deal with analyses and make comprehensive suggestions for the resolution of problems connected with housing development as a whole.

4.1 Current Capacity and Tasks of the Municipality in Housing Development

As part of decentralization of public administration, many duties and competencies are being shifted from state administration to municipalities. Fundamental duties are

stipulated in the Act on Municipal Establishment (Act 369/1996 Coll.), which was amended in relation to decentralization (Act 453/2001 Coll.). Based on this amendment, a municipality is in charge of the following activities, apart from execution of self-administrative role:

- It develops and approves physical planning documentation;
- It develops and approves strategy for development of individual areas of municipal life;
- It develops and approves housing development programs;
- It carries out its own investment and business activities in order to satisfy citizens' needs and the need for municipal development;
- It fulfills the tasks in the area of social assistance to the extent of the Act on Social Assistance (this includes housing for socially and physically dependent citizens).

Regarding the above-mentioned tasks as well as present insufficient level of strategic activities of municipal self-governments (based on the information from the LGHS) it is necessary:

- To create the conditions for permanent strategic activities in all municipalities (performed by internal employees or specialized professional groups);
- To develop an adequate information system on housing, social situation of the citizens, on territorial potential, etc.;
- To facilitate binding character of such documents (e.g. through approval even on the level of municipal representatives) and their acceptance by citizens (public discussion with citizens, permanent information activities, etc.);
- To increase the professional level of decision-making bodies of local self-government (mainly of elected representatives) through permanent professional training;
- To apply adequate procedures for evaluation of strategy intentions especially based on the principle of cost-effectiveness and long-term effectiveness of public spending;
- To define the role of the municipality as investor and operator of housing stock, as well as the task that is related to it as part of the obligation to create conditions for housing development in general.

The role of the municipality in housing development lies with provision of clear strategy of overall municipal development. The basis has been formulated in a vision, which very briefly defines the position and focus of municipality in narrower as well as broader territorial relationships (e.g. the municipality will function as business-administration center with agricultural processing industry). The vision must be broken down into a strategic plan, stating which territorial and partial areas will be developed in the next 5 to 10 years.

A part of strategic planning is also prospecting for housing development. A municipality should develop the prospect strategy on the basis of analysis of the present situation.

A prospective strategy for the entire area of housing development on its territory is necessary to have something to base the whole range of types of urbanization (physical plan, selection of localities, qualitative and quantitative evaluation assessment of demand and offer, estimation of needs, conditions for investors, investment activities and public-private partnership). In order to develop, prospect, and coordinate its implementation, each municipality needs to:

- Develop a strategy of land policy for the purpose of qualified offer of land for those who are interested in investing in housing construction;
- Develop a strategy for housing construction development on its territory in necessary variations, so that the local housing market can function without greater difficulties;
- Create favorable conditions for private entrepreneurs and public-private partnerships for construction starting from development of a physical plan from the municipality all the way to selection of suitable locations;
- Develop necessary regulations (related to construction and social ones—such as for the purposes of preventing formation of segregated groups of citizens).

While developing housing policy, a municipality should:

- Determine its own tools for development of balanced housing market;
- Quantify the need and structure of housing, especially for the group of citizens who are dependent on municipal rental apartments;
- Propose an effective system of management of their own apartments (institutional form of administration and provision of construction, issues of housing allocation, calculation of the rent, relationships with tenants, etc.);
- Assess potential for financing construction of housing into the ownership of municipality (resources of financing for construction and care for housing stock with a quantification of long-term effects on municipal budget).

It is necessary to facilitate effective cooperation of all relevant partners in housing development on the territory (investors, citizens and administrators):

- To provide relevant housing for the citizens who are unable, due to their financial status, to facilitate their housing on the free housing market;
- To create territorial as well as technical pre-requisites for housing construction (locations in the physical plan, regulations of construction, technical infrastructure covered by municipal authorities).

While fulfilling development strategy, the municipality does not have to play a direct role, rather, it could be an initiator or a mediator. A large part of the tasks can be left to the private sphere—non-governmental business or not-for-profit organizations. The basis for such an approach is communication between elected deputies and citizens,

civil associations as well as business organizations. Citizens can identify themselves with prospect plans only if they understand their intentions and the way they will be achieved (including social subsidiary issues).

Development of a housing market requires clear cooperation between the public and private sector. The municipality is partially performing a marketing strategy and therefore helping construction companies, consequently, it conserves its own finances. Strategy is based on the use of all accessible means for housing support. Ultimately, the roles of municipality should be to create favorable conditions for development of private and public housing sectors—to conduct dialogue with investors with the aim of attracting investors into suitable positions, and thus revive housing construction. Adequate locations should be discussed, in advance, with citizens and thoroughly assessed from the viewpoint of limitations and possible obstacles.

A basic condition for the successful development of a housing market is the use of all necessary ways of planning local regulations. Those must be harmonized with state legislation and tools prepared so that, at the end, there is a variety of quality and cost of housing accessible for all types of income groups on the supply side. In the mean time, municipalities should mainly focus on groups of citizens which are not able to acquire their own or rental housing on the market and leave other parts of supply to other entities.

The role of the municipality is not to provide finances or direct housing construction financing apart from a certain portion of social construction supported by the State, or an allowance for improvement of housing status or technical infrastructure, in harmony with prospective strategies and actual potential of municipal budget or specialized funds. The housing issue is, to a large extent, a matter of a private sector within a free market that naturally loses its social dimension.

Usually housing care, even for the socially weakest groups of citizens, is included in the election platforms of political parties. From this viewpoint, it is important to realize, that housing issues connect with citizens much more than any other issue and its potential negligence can affect future election results. The interest of municipalities in housing issues is not only the product of humanistic approach, but also a logical result of political, economic and social pressure. Municipal policy in this area will differ depending on conditions and needs in a particular town.

Regarding the above-mentioned, it is desirable for the self-administration bodies to create, through their own professional staff, an adequate database. It is only on the basis of clear and professional analysis and subsequent proposals that elected representatives can adopt responsible political decisions on behalf of the self-government. Monitoring situations, through housing need analysis, is recommended on a cyclical basis mainly in larger towns or cities and on the level of self-administrative regions. Due to the fact that self-government will be significantly involved in tackling the housing issues of social character, it is important that housing need monitoring does not leave out marginal

social groups (such as homeless people, children leaving orphanages, some categories of elderly, etc.)

Transfer of apartment ownership based on Act 182/1993 Coll. meant that housing stock had decreased beneath the level that is regarded as adequate to the income structure of citizens in Slovakia (see Chapter 2). That is why municipalities will have to prepare themselves for more extensive construction, for which the State has recently created outstandingly good conditions (mainly through state support). However, municipalities will also have to cope with the long-term consequence of construction on the municipal budget (interest cost, repayment of debts) especially in the situation that administration and care for this housing stock will still have to be subsidized due to incapacity of tenants to pay cost covering rent payment.

Another significant role of the municipality is in obtaining land for housing construction. As part of territorial preparation of individual locations for construction development—it will select and approve suitable locations for particular functions—even for housing construction. An important factor is if the municipality owns the land or will purchase the land, or exchange it, in order to facilitate housing construction. A construction, which is very dispersed on the territory, is very costly and problematic from the viewpoint of investment into infrastructure.

It is also necessary to provide the professional performance of construction and administration of housing stock in terms of staffing as well as in formation of efficient organizations (if it is cost-effective from the viewpoint of the size of housing stock):

- To create an independent system of financing in the housing stock and to tackle gradual decrease of dependence of this area on state budget;
- To develop an apartment allocation policy, a system of clear criteria for evaluation of eligibility for allocation of municipal apartment (measuring social needs) and priorities within the scope of eligible applicants.

Municipalities currently prefer administration of housing stock provided by organizations, which specialize in administration of municipal property (budgetary organizations, or other business entities are providing these services for 58% of the municipalities). However, in order to achieve highly a professional and mainly effective performance of the entire system of construction and administration of housing stock, municipalities should create more efficient institutional prerequisites: e.g. non-profit organizations providing fulfillment of tasks like public utility activities with all its duties. This could free the municipalities from the burden of operational activities and at the same time—and this is essential—even the financial system could be separated from the municipal budget. A solution to balanced financing of housing stock reproduction depends on conditions for rent payment collection on the level of reproduction cost.

Criteria for assessment of justified municipal apartment allocation are mainly a question of their stipulation on the national level, while municipalities should adapt them to their level only in respect to housing stock availability.

APPENDIX

Table A6.1
 Overview of State Policy Documents Relating
 to Housing Development in the Slovak Republic

Document	Period	Objectives	Tools
Housing Policy Strategy 1994	1994–2000	<ul style="list-style-type: none"> • Gradual improvement of the overall standard of housing and establishment of the necessary conditions to provide for accessibility of housing; • Bringing to halt the decay of the housing stock and reducing energy consumption; • Establishment of conditions to provide for increments of housing stock to keep the quantitative levels of housing at the 1991 values, transformation of the housing management aimed at improving the efficiency of funds spent on the management of the housing stock, in particular, through the application of market principles; • Application of expedient liberalization of rents linked with the granting of housing allowances that will mitigate the untoward impacts of liberalization (drafting of a new regulation on rents—by 2nd half of 1994); • Changes in ownership relationships and management of technical infrastructure. 	<ul style="list-style-type: none"> • Necessary amendments and adjustments of the legal environment; • Adjustment of economic tools needed for the achievement of the objectives; • Efficient spending of public funds on housing construction for low-income population and special forms of housing (for the homeless, delinquents, persons with severe disabilities, pensioners, the elderly, etc.); • Requirement to develop technical and economic criteria for this type of construction; • Develop state programs.
State Housing Policy Strategy 1994	1995–2000	<ul style="list-style-type: none"> • To set up a responsible central authority to have the authority to implement housing policy tasks; • To provide the necessary increment of units (approximately 26 thousand a year) aimed at keeping the quantitative parameter at the 1991 value of 307 units per 1,000 (<i>Census 2000 showed 350.39 units per 1,000 inhabitants</i>); 	<ul style="list-style-type: none"> • Amendments to, and adjustments of, the legal environment: <ul style="list-style-type: none"> – amendment to the Civil Code (<i>implemented in 2001</i>); – Act on Non-profit Organizations (administration organizations —<i>not implemented</i>). • Adjustments of economic tools needed to achieve the objectives:

Table A6.1 (continued)
 Overview of State Policy Documents Relating
 to Housing Development in the Slovak Republic

Document	Period	Objectives	Tools
		<ul style="list-style-type: none"> • To improve the housing stock structure (<i>not realized</i>); • To keep 20% of the housing stock under privatization for housing of the socially underprivileged groups of the population (<i>not realized, the volume dropped to about 6.5%</i>); • To transfer the administration and management of the housing stock to commercial companies or contributory organizations that will assume also the role of the investor and land management (<i>not realized</i>). 	<ul style="list-style-type: none"> – subsidies to premiums on construction savings for natural persons—suggested amendment—to enable saving also to legal entities (<i>applicable amendment since 2000</i>); – setting up the housing construction support fund—granting of soft long-term loans (10–30 years at up to 6% interest rates) including limited grants, subsidies and compensation for a portion of the interest—considered for legal entities and natural persons (<i>State Housing Development Fund since 1996, amendments since 1997 and 2000—funds from State Budget</i>); – setting up the primary and secondary market of mortgage bonds (<i>not implemented, guarantees program since 2001</i>); – amendment to the Income Tax Act (<i>not implemented</i>); – raising the share taxes to the benefit of municipalities—earmarked for housing development etc. (<i>not implemented</i>). • Liberalization of rents—split into two stages (harmonization with the housing allowance—in 2000). • Social policy—introduction of housing allowance and subsidies to the construction of rental housing since 2000 (<i>since 2001</i>).

Table A6.1 (Continued)
 Overview of State Policy Documents Relating
 to Housing Development in the Slovak Republic

Document	Period	Objectives	Tools
Housing Construction Development Strategy 1999	1999–2005	<p><i>Major objective: saturating housing needs</i> through the development of an efficient tool being a functional housing market.</p> <p><i>Partial objectives:</i></p> <ul style="list-style-type: none"> • Related to housing: <ul style="list-style-type: none"> – efficient use of the existing housing stock; – provision for new construction of housing; – preparation of the territory for new construction. • Related to economic, social and societal conditions: <ul style="list-style-type: none"> – creation of favorable macro-economic conditions; – setting up of efficient systems of housing construction financing based on a structured system of economic tools supporting all layers of the population; – provision for corresponding level of legal regulations. 	<p>Draft <i>legislative amendments</i> viewed as the necessary precondition for the development of the housing market:</p> <ul style="list-style-type: none"> • Systemic approach to rent deregulation; • Setting the conditions for the calculation of rents for newly constructed “social housing”; • Amendments to the Energy Act and the Small Trade Act; • Act on Public Water Lines and Public Sewerage; • Amendment to the Civil Code as amended from time to time; • Amendment to the Act on Ownership of Apartments and Non-residential Spaces; • Amendment to the Income Tax Act; • Amendment to the Property Tax Act; • Drafting of a law on non-profit organizations, also with respect to housing. <p><i>Adoption of programs:</i></p> <ul style="list-style-type: none"> • Granting of state subsidies to the construction of rental housing; • Granting of state grants for the construction of technical infrastructure to rental housing; • Granting of state grants for the elimination of systemic faults in apartment houses.

Table A6.1 (Continued)
 Overview of State Policy Documents Relating
 to Housing Development in the Slovak Republic

Document	Period	Objectives	Tools
State Housing Policy Strategy 2000	Through the year 2005, projection through 2010	<p><i>To set up a framework for all participants of the housing development process:</i></p> <ul style="list-style-type: none"> – upon dealing with partial tasks; – for the sake of participation at all levels of decision-making; – for private and public sector partnership while respecting the sustainable development criteria. 	<p><i>Completion of the transformation of the legislative framework and support tools for housing development to the conditions of the market economy.</i></p> <ul style="list-style-type: none"> • Differentiation of state support by the individual forms of construction intended for the various income groups of the population —privately owned and rental housing (<i>construction saving scheme, mortgages, State Housing Development Fund, and support programs</i>); • Continuing deregulation of rents (<i>possibly getting to the level of cost-covering rents by 2003</i>); • Developing housing policies for 10-year periods; • Application of specific tasks via the Action Plan for Housing Development for approximately 5-year periods; <ul style="list-style-type: none"> • Including housing among state priorities, including measures and activities to achieve them; • Evaluating, on a yearly basis, the efficiency of the measures taken and the necessary updates.
Annex: <i>Action Plan for Housing Development</i>	Through the year 2005	To create technical, economic and legislative conditions through Action Plan measures for a gradual growth of housing construction, so as to achieve the level of approximately 20,000 apartments completed annually around 2005.	

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ENDNOTES

- ¹ During the period between 1967–1990, the system of National Committees existed on local, district and regional levels. Those institutions represented the mix of self-governmental and state administration systems, through which the central policy was realized.
- ² The purchase price means the price recorded in the accounting documents that accounted for the first general inventory of property in 1965.
- ³ The change applies only to new loans. The old loans maintain the same level of subsidizing during the whole contract, e.g. the subsidy does not change during the loan period.
- ⁴ Questionnaires were sent to a total of 124 municipalities with populations over 5,000; the rate of return was slightly above 50%. Due to the lower level of representation of smaller cities, weighting was applied to assure the representative value of the results according to the size of municipalities.

Housing Policy:
the Stepchild of the Transition

Local Government and Housing in Bulgaria

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INTRODUCTION

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

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

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

1. HOUSING AND NATIONAL HOUSING POLICY DURING THE TRANSITION

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

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

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

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

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

1.1 Tenure Structure Changes and Privatization

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

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

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

Table 7.1
Types of Construction and Ownership of Finished Dwellings

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

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

SOURCE: National Statistics Institute (NSI).

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

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

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

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

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

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

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

1.2 National Housing Policy Objectives and Legislative Changes

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

1.2.1 National Housing Policy Goals

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

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

1.2.2 Changes in the Legal and Institutional Framework

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

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

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

According to the Bulgarian legislation, municipal property is:

- Forests and agricultural lands, determined by the law;

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

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

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

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

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

1.2.3 Allocation of Public Housing

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

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

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

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

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

1.2.4 Rent Regulation

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

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

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

1.2.5 Energy/Social Allowances

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

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

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

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

1.2.6 New Housing Construction, the Housing Market and Housing Finance

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

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

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

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

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

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

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

SOURCE: Bulgarian National Bank

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

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

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

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

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

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

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

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

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

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

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

1.2.7 Housing Affordability

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

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

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

Table 7.5
Prices and Income

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

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

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

SOURCE: NSI.

Table 7.6
Housing Affordability

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

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

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

SOURCE: NSI.

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

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

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

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

Box 7.1

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

History

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

Practice

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

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

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

Results

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

Box 7.2

Establishment of the Bulgarian Housing Association (BHA)

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

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

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

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

The results so far are:

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

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

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

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

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

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

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

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

The final project results are as follows:

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

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

Recently some legal documents were drafted:

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

2. EFFICIENCY AND EFFECTIVENESS OF LOCAL GOVERNMENT HOUSING POLICIES

2.1 Administrative/Territorial Structure

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

Table 7.7
Groups of Municipalities, Population Distribution

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

SOURCE: NSI.

Table 7.8
Population Structure by Settlement Categories

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

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

SOURCE: NSI.

2.2 Financial Abilities of Local Authorities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.3 Role of The Local Government in the Field Of Housing

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

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

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

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

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

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

2.4 Local Governmental Housing

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

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

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

Table 7.9
Categorization of Cities

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

SOURCE: Local Government and Housing Survey (LGHS)

Table 7.10
Weightings for the Result Presentation

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

2.4.1 Overview

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

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

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

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

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

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

Table 7.11
Municipal Housing Stock in Different Types of Buildings

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

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

Table 7.12
Municipal Housing by Decade of Construction

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

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

2.4.2 Management and Maintenance of the Municipal Rental Housing

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

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

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

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

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

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

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

Box 7.3
Condominium Practice

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

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

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

2.4.3 Rent setting in Municipal Housing

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

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

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

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

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

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

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

2.4.4 Allocation of Municipal Housing

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

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

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

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

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

Box 7.4

Reserve Municipal Housing in Veliko Tirnov

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

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

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

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

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

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

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

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

2.4.5 Voids and Rent Arrears

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

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

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

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

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

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

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

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

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

2.4.6 Energy/Social Allowances

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

2.4.7 Privatization of Municipal Housing

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

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

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

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

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

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

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

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

Box 7.5

New Housing Construction in the Sofia Municipality

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.5 Local Housing Policy Strategies and Objectives

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

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

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

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

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

3. CONCLUSIONS AND POLICY RECOMMENDATIONS

3.1 Conclusions Directly Related and Derived from the Survey Results

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

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

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

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

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

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

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

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

3.2 Recommendations

3.2.1 National Level

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

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

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

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

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

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

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

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

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

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

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

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

3.2.2 Local Level

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

The priority tasks of a municipal housing program should be:

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

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

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

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

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

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

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

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

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

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

An effective local housing program should:

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

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

REFERENCES

Corporate Income Taxation Act.

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

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

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

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

Draft act for the Housing Savings Banks.

Municipal Budget Act.
Municipal Taxes and Fees Act.
Personal Income Tax Act.
Regulation for allocation of municipal rental housing.
Regulation for basic prices of real estate.
Regulation for implementation of the Municipal Property Act.
Regulation for Implementation of the State Property Act.
Regulation for prices of real estate.
State Budget Act.
The Administrative Proceedings Act.
The Constitution of the Republic of Bulgaria.
The Local Self-Government and Local Administration Act.
The Municipal Procurement Act.
The Municipal Property Act.
The National Housing Strategy of the Republic of Bulgaria.
The State Budget Act.
The State Property Act.
The Territorial and Urban Development Act.

ENDNOTES

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

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Local Government and Housing

Martin Lux

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State and Local Government: How to Improve the Partnership

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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).

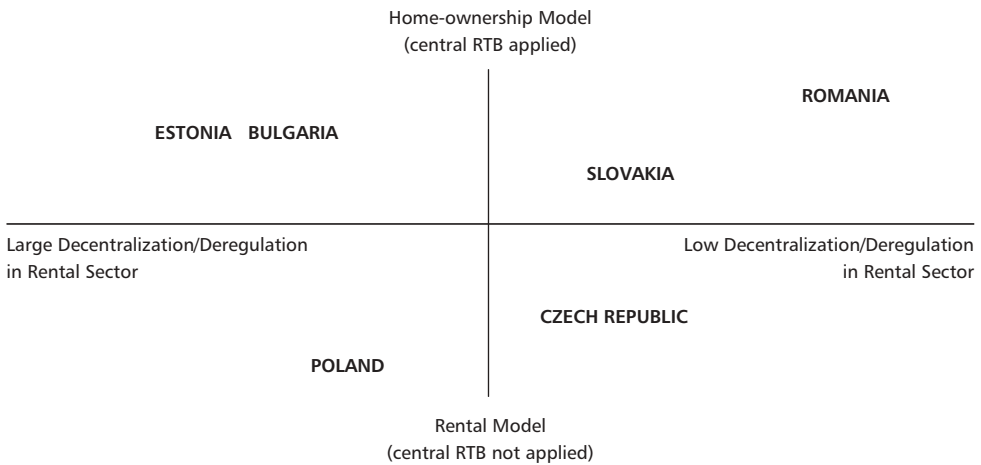
Selected countries have already been grouped into three types according to the housing privatization strategies: 1) Fast privatizers (Romania, Estonia, and Slovakia); 2) Slow privatizers (Czech Republic, Poland); 3) Bulgaria. Though there is a very slight correlation between level of country GDP and 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.

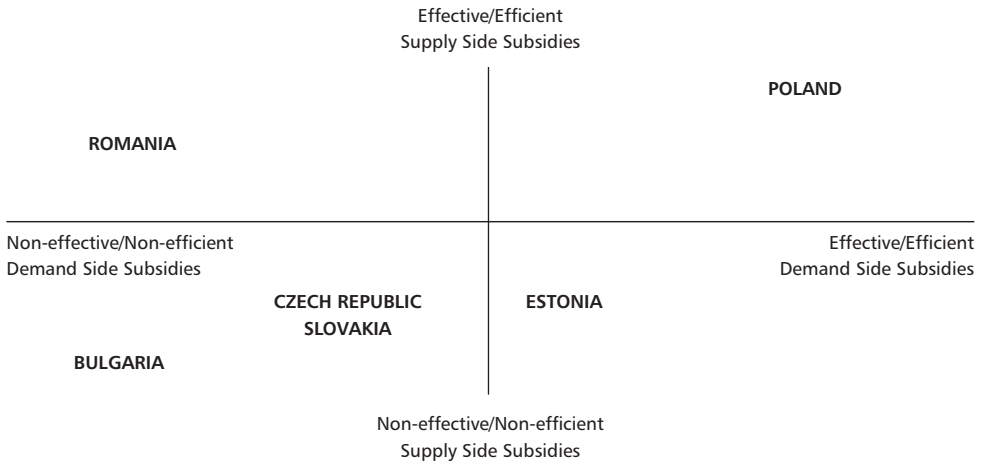
If we want to compare the countries/models according to the real and not only theoretical economic efficiency and social effectiveness of their supply- and demand-side state policies we would define:

- 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 <ul style="list-style-type: none"> • regulated by central legislation (ceilings) • not regulated by central legislation 	x	x	x	x	x	x
Allocation of municipal housing among socially needy households <ul style="list-style-type: none"> • regulated by central criteria • not regulated by central criteria 	x	x	x	x	x	x
Privatization of municipal housing <ul style="list-style-type: none"> • 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 <ul style="list-style-type: none"> • 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.

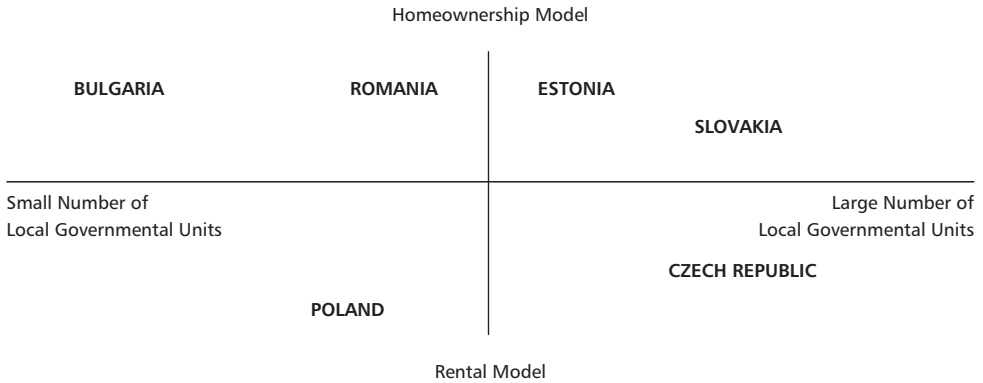
As for the state housing policies, the comparison of local housing policies in those CEE countries is not a simple issue. They are influenced by many factors: the character of state policy, economic wealth, political preferences, etc. Figure 8.3 shows the relationship between orientation of the central 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

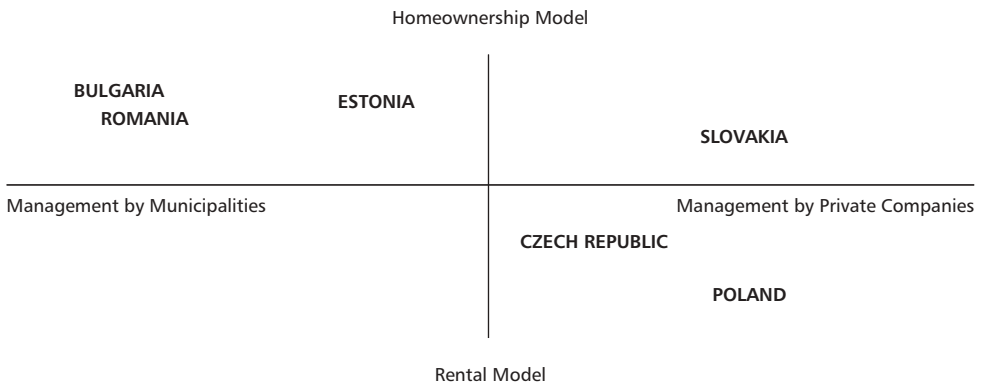
construction are already in operation and attention is being paid, among to other objectives—such as refurbishment/regeneration programs.

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.

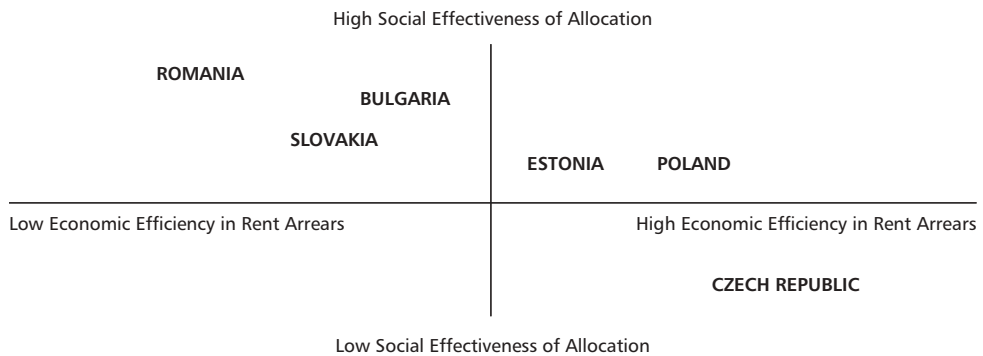
Figure 8.4
Comparison of Local Government Housing Policies



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 depression 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.

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