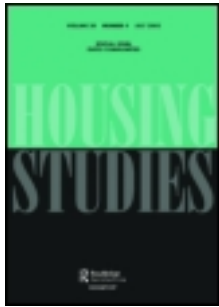


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Publisher: Routledge

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Housing Studies

Publication details, including instructions for authors and subscription information:

<http://www.tandfonline.com/loi/chos20>

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Published online: 17 Jan 2014.

To cite this article: Martin Lux & Petr Sunega , Housing Studies (2014): Public Housing in the Post-Socialist States of Central and Eastern Europe: Decline and an Open Future, Housing Studies, DOI: [10.1080/02673037.2013.875986](https://doi.org/10.1080/02673037.2013.875986)

To link to this article: <http://dx.doi.org/10.1080/02673037.2013.875986>

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Public Housing in the Post-Socialist States of Central and Eastern Europe: Decline and an Open Future

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(Received March 2013; accepted December 2013)

ABSTRACT *One key consequence of give-away privatizations was that public housing in most post-socialist states declined within a few years to a residual share of total housing market. Despite the large differences in public/social housing policies introduced after 1995, this article will show that almost all new social housing measures proved to be unsustainable, ineffective and often had the unintended consequence of further enhancing homeownership tenure in post-socialist housing systems. The reasons for the limited success of new social housing policies are attributed to broader historical and institutional factors, such as the 'privatization trap', the 'decentralization paradox', the impact of the informal economy and a strong socialist legacy in housing policies. These findings contribute to the study of how post-socialist housing systems emerged, and reveal how short-term policies can produce long-term structural change and can become a barrier to effective and sustainable social housing policies.*

KEY WORDS: Post-socialist states, housing policy, social housing, housing privatization, housing system

1. Introduction

After 1990, the new democratic governments in post-socialist states wanted to re-introduce private property and establish a market economy (Pichler-Milanovic, 2001). Governments in most countries in Central and Eastern Europe shared the view that large parts of existing public rental housing should be privatized; rent regulation rules should be abolished or replaced with a new market-friendly system and new social housing strategies should help people who were unable to afford housing available in the free market.

However, in most countries the transfer of public housing into private hands was put into practice in a very specific way: it ultimately took the form of a massive give-away sale to sitting tenants who obtained housing wealth almost or wholly free of charge. This policy was similar to the right-to-buy policy of selling social housing to sitting tenants in the UK

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during the 1980s where public housing tenants were given the option to buy their dwellings under advantageous price conditions by the Conservative government led by Margaret Thatcher. Other forms of privatization, such as those that would preserve rental housing through the sale of public flats to private investors, not-for-profit private housing associations, housing cooperatives or the sale of public flats to sitting tenants at market prices were barely discussed (Lowe & Tsenkova, 2003; Lux, 2009).

With give-away privatization, public housing almost disappeared in a short period in most post-socialist states, although there were some exceptions in the Czech Republic, Poland and Russia. As a result, homeownership rates increased substantially to levels often exceeding 90% of total housing stock in many post-socialist countries.

Similarly, attempts to establish new social housing policies for those who could not afford housing under free market conditions have been implemented in very specific ways. Notwithstanding the large differences in measures adopted, this study will argue that almost all attempts at reinventing social housing during the economic transformation process proved to be both unsustainable in the long-term and ineffective, and often ended up in further enhancing homeownership tenure in post-socialist housing systems.

In this article, two key questions will be examined. First, why were new social housing policies in post-socialist states after 1990 so unsuccessful? Second, is there a future in post-socialist states for a social housing concept that evolved gradually during the post-war era in western countries? This overview of housing change in post-socialist states over the last two decades aims to make a contribution to the study of how social housing policies evolve in countries that undergo a process of profound political and economic transformation.

The argument presented in the following pages is structured as follows. In the second section, we will describe the conceptual and methodological framework used in this article. The following two sections provide relevant contextual information regarding the changing role of public housing from socialism to recent times. Section 5 focuses on the evaluation of sustainability and the effectiveness of new social/public housing policies introduced after 1995 in 12 post-socialist states. The penultimate section links contextual information with evaluations of new policies; thereafter there is a presentation of the main findings of our analysis. The final section presents concluding comments regarding the two key questions examined in this study.

2. Conceptual and methodological framework

In all post-socialist states, there are relatively little comparative housing data. Reliable quantitative secondary data are often also scarce. Consequently, the only means of examining the key questions outlined in the introduction is to use data from an original survey on the performance of new social housing policies in post-socialist states, and thereafter link the survey results to the wider historical and institutional context of post-socialist states. Three pieces of information are needed to answer our two questions. First, this study requires evidence regarding the institutional rules implemented under socialism for public housing. Second, it is necessary to have contextual information on the post-socialist transformation that facilitates explaining changes in the meaning of social/public housing immediately after 1990. Third, data evaluating the performance of new social/public housing measures applied after 1995 are needed.

Two modes of analysis are integrated in this study. First, a contextual or historical institutionalist approach is adopted. Second, performance evaluations are made of ‘new’ (post-1995) social/public housing policies in the post-socialist states. The key idea is that the legacy of socialist housing practices and institutions formed the basis of a ‘path dependency’ under which social housing policies in post-socialist states evolved over the last two decades. Evaluations of the social housing measures must therefore take into account the complex interaction between context and choice.

In the contextual analysis, we made a comprehensive review of the comparative housing literature focusing on public housing under socialism and its change after socialism collapsed. In the contextual study and especially the performance evaluation analysis, we used data from a recent international comparative survey of 12 post-socialist states directed by us jointly with the Metropolitan Research Institute, Budapest, Hungary.¹

The survey was conducted during 2010–2011, and its aim was to deliver critical evaluations of developments in selected countries’ social/public housing sectors over the past two decades. More details of the contextual factors drawn from the survey, which are not discussed in this article, may be found in Hegedüs *et al.* (2013). As rules of discourse, agenda setting and communication framing are important components of the context in which public housing policy is formulated, the participation of local (native) researchers in this comparative survey makes these results especially valuable for this study.

The comparative survey was coordinated by the Metropolitan Research Institute, Budapest, and the Institute of Sociology, Academy of Sciences of the Czech Republic, Prague. The coordinators established the network of 18 local housing experts in 12 post-socialist countries. It was then a task of each local housing expert to write a case study on social housing in their respective post-socialist countries using a common outline and research methodology for making policy evaluations. Besides the case study, the survey coordinators asked country experts to complete three additional semi-standard questionnaires on specific topics. The aim of questionnaire surveys was to increase the reliability and completeness of international comparison. The data were collected, clarified (in case of misunderstanding) and summarized by the survey coordinators. Finally, the results of comparison were confirmed by country experts in commenting on the comparative data tables and conclusions.

In the semi-standard questionnaire surveys, the country experts provided the following data used in this article: housing tenure structure, share of social/public housing on total housing stock, estimate of new social/public housing output (1995–2010), its trend, prospect and structure of its funding, and many details on social/public housing allocation rules, rent regulation and country housing allowances. For the purposes of comparative evaluation, we divided the estimated amount of new social/public housing output by the total number of permanently occupied dwellings in each country (around 2001) drawn from Kees & Marietta (2010), and ranked countries into four categories: countries with ‘marginal output’ (share in interval 0.0–0.5%), ‘low output’ (0.5–0.7%), ‘middle output’ (0.7–1.0%) and ‘substantial output’ (share above 1.0%). The evaluation of the performance of new social/public housing policies was completed by country experts in their country reports. As noted earlier, all of these evaluations were based on a common methodology facilitating comparison.

Evaluation of the performance of new social/public housing policies was limited to two indicators: sustainability and effectiveness. The sustainability measure refers to the length of time a policy was implemented, and if still operational an estimate of its use in the

future through reference to recent government plans. Evaluation of policy effectiveness was based on assumptions used in welfare economics that distinguish between ‘vertical’ and ‘horizontal’ effectiveness/equity (Barr, 1998). Vertical effectiveness measures the degree of redistribution of income, consumption and wealth from affluent to the disadvantaged.² In the case of a particular housing subsidy, it measures the extent to which such a subsidy is actually allocated to those who really need help. Horizontal effectiveness is connected with the assumption that all poor households have equal and unrestricted access to subsidies. In the case of a particular housing subsidy, horizontal effectiveness measures if any poor household is not eligible to apply for a subsidy, and thus determines if there is implicit or explicit exclusion from state assistance.

All experts in their case studies made an assessment of new social/public housing policies and measures. It must be acknowledged that in all cases there was insufficient statistical data to make a purely quantitative evaluation. More specifically, exploring the link between public housing subsidies and income inequality (such as the Gini coefficient and Lorenz curve) could not be computed and used as a basis for cross-national comparison. Consequently, this research used especially a sustainability indicator when formulating overall conclusions. The results of this comparative evaluation of new social/public housing policies were then linked with key contextual variables. The goal here is to explore the association between new social housing policies and larger institutional change, and to make some comments regarding the future of social housing in post-socialist states.

3. Public housing under socialism

In the mainstream housing policy discourse, public housing is often seen to be a part of social housing. However, the automatic inclusion of public housing in the category of social housing, evident for example in international housing statistics (Housing Europe Review, 2012; Kees & Marietta, 2010; Scanlon & Whitehead, 2004), ignores significant differences in the meaning that public housing has acquired in different cultural contexts. This difference is especially relevant when analysing the post-socialist housing transformation because public housing had very specific features during socialism. If these features are ignored, there is the danger that key characteristics of the transition process experienced by post-socialist states after 1990 will be misunderstood.

Before 1990, most of the economy in socialist states was in state ownership and was subject to central planning. Despite some differences (especially regarding the re-emergence of a free market logic in some parts of the economies in the former Yugoslavia, Bulgaria and Hungary) in the field of housing, this meant that state intervention was directed towards decommodifying housing through policies such as extensive housing subsidies, property expropriations and rent/price regulations. These interventions created a large public (semi-public) rental housing segment where rents were kept at extremely low levels.

No definition of ‘social housing’ existed under socialism, although there were some exceptions such as the former Yugoslavia. Nor can this term be simply applied to the mass public housing stock created during socialism. The key principle of socialist housing policy was to allot flats for free ‘according to people’s needs’. Need was defined technically as the right to occupy a specified amount of housing space. Defining needs and standards was basically the task of social engineers, planners and architects.

In societies characterized by wage equality, the allocation of public housing on the basis of income or social need was officially unnecessary. The housing market relations were suppressed, so unlike social housing in Western Europe and elsewhere, public housing was not intended to serve primarily those who could not afford to secure accommodation in the market. Similarly, there was often no income-targeted social policy whatsoever: the term 'social policy' in many socialist countries disappeared from official use during the 1950s, as it implied the existence of social problems that had officially been solved. The role of non-state actors such as the church, charity and non-government organizations in the provision of social services was suspended, and the whole system of 'social policy' was centralized under the umbrella of the omnipotent state (Krebs, 2005).

As labour income varied only marginally, the main sources of stratification in socialist societies were access to social security and 'privileges' (Breen & Rottman, 1995; Crompton, 1998; Hamilton & Hirszowicz, 1993). Social paternalism became an instrument of both social security and political control (Večerník & Matějů, 1999, p. 198). Those who were not loyal to the prevailing political ideology had difficulty finding work corresponding to their education and skills. In a similar manner to gaining access to decent employment, public housing became a tool of the regime to distribute socialist 'privileges'.³ People who obtained public housing the fastest and/or with the highest implicit value were often members of the Communist Party, people loyal to the socialist regime (*nomenklatura*) or people who effectively used their clientelist networks or employed corrupt means to acquire public housing (Kornai, 1992; Lux, 2003).

In Hungary, Szelényi (1983) and Daniel (1985, p. 408) have demonstrated that despite the declared intentions of communists, the allocation of public dwellings 'didn't reduce but, on the contrary, increased inequality within Hungarian society'. Later, Bodnár & Böröcz (1998, p. 1296) found that one key source of housing inequality during socialism was 'the extent of informal social networks' used by people with higher education to secure goods and services that went 'beyond the well-known normative advantages associated with educational and political affiliation'. The official egalitarianism which incorporated the ideology of 'public housing for all' led to artificial housing scarcity, and this in turn led to a politically based distribution of housing 'privileges'.

Besides specific housing allocation practices, the second distinct feature of public housing under socialism was that tenants who were allotted dwellings by the state/municipality or public enterprise obtained unlimited occupancy rights in the form of a so-called 'deed' to the flat. In many countries, officials did not speak about 'renting', but about the 'personal use' of a flat. 'Personal use' became often an institution separate from that of rental tenure—it could be inherited or transferred to relatives, or exchanged with some other holders of user rights, or illegally marketed—all this was later called 'quasi-homeownership' (Hegedüs *et al.*, 1996; Hegedüs & Tosics, 1998; Lux, 2009).

As Marcuse (1996) has shown, the concept of tenancy title that existed under socialism was very close to legal right of ownership title in advance industrial economies. In market economies, the right of use is subordinated to the right of ownership, but in socialist countries the right of use was superior to the right of ownership: and the rights of use 'equalled or exceeded in many ways those conventionally associated with ownership and certainly were far stronger than those associated with conventional tenancy in United States' (Marcuse, 1996, p. 135).

4. Rapid decline of public housing after 1990

As mentioned earlier, most post-socialist governments used a rapid give-away privatization of public housing to sitting tenants as the major means of re-introducing private property, and establishing a housing market in the early 1990s. One of the main consequences of this form of privatization was that in the space of a few years, the housing systems of Central and Eastern Europe became dominated by homeownership tenure. However, there were a few exceptions to this general trend, and this policy differentiation led several scholars to speculate about a possible divergence in social housing strategies (Tsenkova & Turner, 2004).

For example, in Poland and the Czech Republic the right-to-buy legislation was not passed and public housing privatisation was left to the municipalities as an open option (Lowe & Tsenkova, 2003). The decision of these governments not to apply a right-to-buy policy preserved public rental housing tenure for some time. However, were these policies really different? From a consequentialist perspective of how housing tenure structures later evolved, it seems that this is not the case. Both Poland and the Czech Republic decided to keep the original pre-1990 type of non-targeted centrally directed rent control (while also retaining most of the pre-1990 tenant protections) where only small and gradual rent increases were allowed. Municipalities in these two countries, though not obliged to sell their newly acquired housing, were unable to introduce any effective way of managing public housing stock that could save them from subsidizing it. With their hands tied by rent control and quasi-homeownership entitlements, municipalities often saw the sale of public housing as a good way of ridding themselves of this unwanted gift from central government.

In this case again, public flats were mostly sold to sitting tenants at low prices, though price conditions (and the scale and speed of the sale) varied among municipalities. The give-away privatisation of public housing to sitting tenants was delayed, but ultimately did happen. According to estimates based on a survey of municipalities (UUR, 2011), in the Czech Republic about 75% of the original stock of public housing was sold to sitting tenants under advantageous price terms by 2010, and the share of public housing had decreased from 35% in 1991 to an estimated 8% of total housing stock by 2011. Similarly, for Poland the figures are 32% in 1991 and 8% (estimate) in 2011 (Muziol-Weclawowicz, 2012).

5. New social/public housing policies and measures after 1995

In all post-socialist countries, public housing and rental housing more generally experienced an unprecedented large and rapid decline. This radical restructuring of housing systems could have been seen as an opportunity to formulate and implement new social housing strategies that would reflect market logic, and hence converge towards housing models evident in Western Europe. The proponents of mass privatization thought that the sale of public housing might ‘unwind the socialist housing legacy’ and enable the new liberal democratic governments to introduce more effective and sustainable strategies. The aim of this section is to show if this is really what happened using the data from the international comparative survey conducted in 12 post-socialist states discussed earlier in Section 1. The sample of countries examined includes Bosnia and Herzegovina,

Croatia, the Czech Republic, Estonia, Hungary, Poland, Romania, Russia, Serbia, Slovakia, Slovenia and Ukraine.

Table 1 summarizes some of the data used in this study to evaluate post-1995 social housing policies. This evidence shows that the decline in social/public housing, which started with the give-away privatization in the early 1990s, has to date not been reversed, and new social/public housing programmes have proved to be weak and unsustainable in the long term.

The highest share of public, or not-for-profit, housing out of total housing stock observed in 2011 occurs in Russia (16%), Poland (10%) and the Czech Republic (8%); in Ukraine public housing constitutes 5% of the total, while in Estonia, Hungary and Slovenia it is 4%, in Slovakia 3%, in Croatia, Bosnia and Herzegovina and Romania it is 2% and finally in Serbia it is 0.5%. The large share of public housing in Russia is the product of a very specific situation: despite the Russian government's promotion of a generous right-to-buy policy, many tenants decided not to become homeowners. This decision by Russian tenants appears to reflect the fact that tenancy in public housing still resembles secure socialist quasi-homeownership, and transfer to full homeownership results in increased housing costs.

Although the municipalities emerged as the main social housing landlords in the sample of 12 socialist societies examined, they did not receive sufficient public funds to perform this new role effectively. Moreover, in most countries old rental contracts are still bound by strict rent regulation regimes (Romania, Russia, Ukraine, Slovakia, Slovenia, Bosnia-Herzegovina, Croatia and Serbia) and this may prevent municipalities from formulating and implementing their own social housing policies. In sum, municipalities after the fall of socialism became the main heir of public rental housing stock. However, their rights to dispose of this heritage were restricted by the state: either by enactment of right-to-buy legislation and/or by the preservation of binding rent controls.

The form of rent regulation, i.e. central (state) policy that restricts the level of rent charged by public and/or private landlords, represents an important contextual feature of post-socialist housing change. In the early 1990s, rent reform was conditional upon the introduction of a right-to-buy policy, i.e. rent deregulation was passed only if sitting tenants were also given the 'right-to-buy' and thus a chance to avoid future rent increases. Moreover, even if right-to-buy policies were introduced, the deregulation of rents did not necessarily mean that rents increased to close-to-market levels. Rent deregulation in many such cases was simply a transfer of the power to set public housing rents from the central to the local level, but public rents remained low. See Appendix for more details. Rent control in newly built public or non-profit housing reflects the level of state subsidies and/or the specific conditions of subsidy programmes, and it is most often set at a cost rent level. The cost of new construction, however, may be high, so rents in any newly built public or non-profit housing are often higher than in existing public housing.

Not-for-profit housing is a new phenomenon, having only appeared since the collapse of socialism. However, there are only two post-socialist countries in our sample where not-for-profit housing now makes up a visible share of the housing stock: Poland and Slovenia where it constitutes 2% of the housing stock in both cases. Moreover, the growth of this sector has stagnated in both countries. Slovenia has recently turned away from supply-side subsidies towards housing allowances, and Poland has ceased supporting not-for-profit housing development. In Poland, it is expected that not-for-profit dwellings operated by housing associations called *Towarzystwa Budownictwa Społecznego* (TBS) will be

Table 1. Characteristics of public/social housing on sample post-socialist states

Country	P1	P2	Central rent control for existing SH/PH	Central rent control for new SH/PH	Central (official) definition of SH	Central allocation rules for SH/PH	New SH/PH output (1995–2010)	Future trend for SH/PH	Central (state) funding of SH/PH	Local (municipal) funding of SH/PH
BA	2.0	<0.1	Yes, AVP	No	No	No	Marginal	Stable	Yes	No
HR	2.0	–	Yes, AVP	No	No	No	Marginal	Stable, slight increase	Yes	Yes, in the capital city mainly
CZ	8.0	–	Yes, ST, since 2012 SG	Yes, CP	No	Yes, but till 2002 no targeting	Substantial	Sharp decrease	Yes	No
EE	4.0	–	No	No	No	No	Low	Stable, slight increase	No	Yes, in the capital city mainly
HU	4.0	–	No	Yes, CP	No	No	Marginal	Decrease	Yes	No
PL	10.0	2.0	Yes, SG	Yes, CP	Yes, since 1995	Yes, but TBS programme is finishing	Middle	Sharp decrease	Yes	No
RO	2.0	–	Yes, IR	Yes, IR	Yes, since 1996	General list of target groups, young people	Low	Variable	Yes	No
RU	16.0	0.2	Yes, ST	Yes, ST	Yes, since 2005	Yes, since 2005 income limits, till 2005 all	Marginal	Stable, slight increase	Yes	Yes, in the capital city mainly
RS	0.5	–	Yes, ST	Yes, ST	Yes, since 2009	General list of target groups	Middle	Sharp decrease	Yes	Yes, in the capital city mainly
SK	3.0	–	Yes, ST	Yes, CP	No	Yes, income limits (but high)	Substantial	Stable, slight increase	Yes	No
SI	4.0	2.0	Yes, AVP	Yes, AVP	Yes, since 1991	General statement	Substantial	Sharp decrease	Yes	Yes, for elderly
UA	5.0	–	Yes, ST	Yes, ST	Yes, since 2006	Yes, income limits, but in practice universal waiting lists	Marginal	Variable	Yes	No

Note: P1 refers to public/not-for profit housing as a percentage of total housing stock and P2 indicates not-for profit housing as a percentage of total housing stock. Bosnia and Herzegovina (BA), Croatia (HR), Czech Republic (CR), Estonia (EE), Hungary (HU), Poland (PL), Romania (RO), Russia (RU), Serbia (RS), Slovakia (SK), Slovenia (SI), and Ukraine (UA). Appraised value principle (AVP), cost principle (CP), second generation (SG), social housing (SH), strict tariffs (ST), income related (IR), a Polish not-for-profit housing association (TBS) and public housing (PH).

Source: Semi-standard questionnaire survey among 18 local housing experts, summarized by authors.

offered for sale to tenants, and thus this housing sector is predicted to decline sharply. In short, not-for-profit housing programmes have so far been unsuccessful in the post-socialist region. Additionally, not-for-profit (formally) often means municipal (in fact) because most not-for-profit organizations in Poland and Slovenia are municipally owned.

Official definitions of social housing have already been formulated in half of countries analysed here, that is Poland, Romania, Russia, Serbia, Slovenia and Ukraine, and the allocation rules for targeting newly built social/public housing are set in all the countries with any new central social/public housing subsidies. However, the actual performance of new social/public housing programmes, especially in terms of their sustainability, has been poor. Column 8 of [Table 1](#) shows that there are three countries, i.e. Czech Republic, Slovakia and Slovenia, where new social/public housing output built between 1995 and 2010 can be considered substantial, that is when related to the size of the country's housing stock and the situation in other countries in the sample. According to estimates, 85 000–90 000 public dwellings were built in the Czech Republic between 1995 and 2010; 24 000 public dwellings in Slovakia and 23 000 public and not-for-profit dwellings in Slovenia (Hegedüs *et al.*, 2013). When divided by the total number of permanently occupied dwellings around 2001, the share is especially high for Slovenia (3.5%) and the Czech Republic (2.1%).

However, in the Czech Republic most new public housing output constructed between 1995 and 2010 had de facto quasi-homeownership status because the original state support for municipal housing was converted into support for co-operative (co-op) housing: 'tenants' paid large contributions from their own pockets, became co-op members rather than pure tenants and, as co-op members, had relatively extensive disposal rights similar to the rights of homeowners. Moreover, the programme ended up with the state subsidizing also the construction of luxurious dwellings and secondary homes, or flats acquired purely for speculation. The allocation of housing was not means tested and, in fact, it was mostly high and middle-income households that participated in the programme (Lux *et al.*, 2009). When the programme was amended in response to its deficiencies (the co-op form was banned and income targeting was introduced), the scale of output decreased substantially and in recent years has become of marginal significance.

In Slovenia, the relatively generous social housing programmes of the 1990s were recently scrapped and replaced by a new housing allowance scheme, which is expected to be better targeted and will make more efficient use of scarce public resources. This reform has been accompanied by a substantial decrease in new social housing output.

A medium level of social/public housing output after 1995 in relation to the size of the total housing stock can also be observed in Serbia and Poland. However, the Serbian programme ended up applying a right-to-buy policy for tenants, and this social housing became part of the owner-occupied housing stock. This is why Serbia now has the lowest share of public housing in the total housing stock out of all the countries in the sample.

Poland is currently the only post-socialist country with a substantial not-for-profit social housing scheme. However, subsidization of new social housing output recently ceased, and flats built within the TBS programme will be probably privatized in favour of sitting tenants. Consequently, social/public housing output is stable only in countries with low or marginal output (Bosnia-Herzegovina, Croatia, Estonia, Romania, Russia and Ukraine) and in Slovakia. Slovakia is the only exception in our sample because the construction of new social housing there can be considered substantial, and the trend appears to be stable or increasing slightly.

The new social/public housing policies could be categorized using a variety of criteria. One practical classification system is to use both the volume of new social/public housing output built between 1995 and 2010 and the ideology underpinning such construction. This simple typology highlights four different policies present among countries: (1) a *conservative policy* in Ukraine and Russia, (2) an *emergency policy* evident in Croatia, Serbia and Bosnia-Herzegovina, (3) a *market complement policy* observed in Poland, Czech Republic, Slovenia and Slovakia and (4) a *market residual policy* in Estonia, Hungary and Romania. The conservative policy is characterized by underdeveloped housing and mortgage markets and the survival of many features of the socialist housing system, i.e. central waiting lists, an ideology of ‘public housing for all’, quasi-ownership rights for tenants, very strict rent regulation and extremely low rents.

In countries affected by political instability and war, the emergency social housing policy logically mainly addressed the housing needs of victims of war or forced migration. In some of these countries, such as Croatia, there have recently been signs of a move towards the market policy. The market policy attempts to define the role of social/public housing under new housing market conditions. This type of housing policy is typical for advanced post-socialist states that have a developed market-based housing finance system, a suitable legislative framework in place for housing market institutions and some history of a functioning housing market. The market social housing policy utilizes social/public housing as an important complement to the market (market complement policy) or as residual addition to the housing market (market residual policy).

Surprisingly, both the vertical and the horizontal effectiveness of all these four policies have been low. Long waiting lists based on universal housing needs, which is a characteristic of a conservative social housing policy, have co-existed with middle class and key workers preferences for new public housing allocations under market policies. Targeting those in need with low-incomes, the homeless or otherwise vulnerable households was either absent in the housing allocation rules (the Czech Republic, Hungary, Serbia, Bosnia-Herzegovina, Ukraine, and Russia) or the regulations applied did not accomplish this goal in practice. The latter policy failure was due to a number of factors such as (a) income caps were set too high (Slovakia, Slovenia and Poland) or (b) key workers, tenants in restituted housing and young house seekers regardless of their income were given preferential treatment (Estonia, Romania and Croatia). In some cases, the low level of effectiveness of new social/public housing policies has been accompanied by speculative behaviour of participants (the Czech Republic and Croatia).

One would expect that new social/public housing output, measured as the share of new output built between 1995 and 2010 out of the total number of occupied dwellings, would be greater in countries with higher at-risk-of-poverty rates. [Figure 1](#) shows that the opposite is true. The countries with the highest at-risk-of-poverty rates are Russia and Romania, and they exhibited only an intermediate volume of relative public/social housing output. In contrast, [Figure 2](#) shows that better economic performance, measured as Gross Domestic Product (GDP) per capita in Purchasing Power Parity (PPP), is strongly connected with higher relative social/public housing output. The relative size of output grew with the level of country (relative) GDP per capita at a rapid (logarithmic) rate, i.e. a marginal increase in relative GDP above a certain threshold was followed by a significant increase in social/public housing output.

Another important question is whether the existence of an official definition of social housing is positively connected with the level of new social/public housing output? Again,

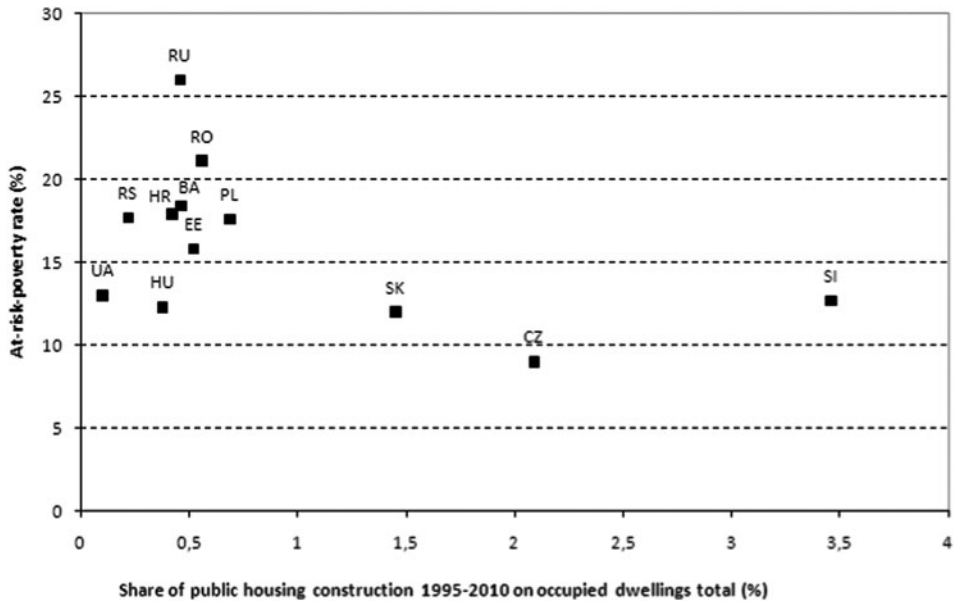


Figure 1. Relationship between poverty and public housing construction, 1995–2010. *Source:* Hegedüs *et al.* (2013), Eurostat and national statistical offices.

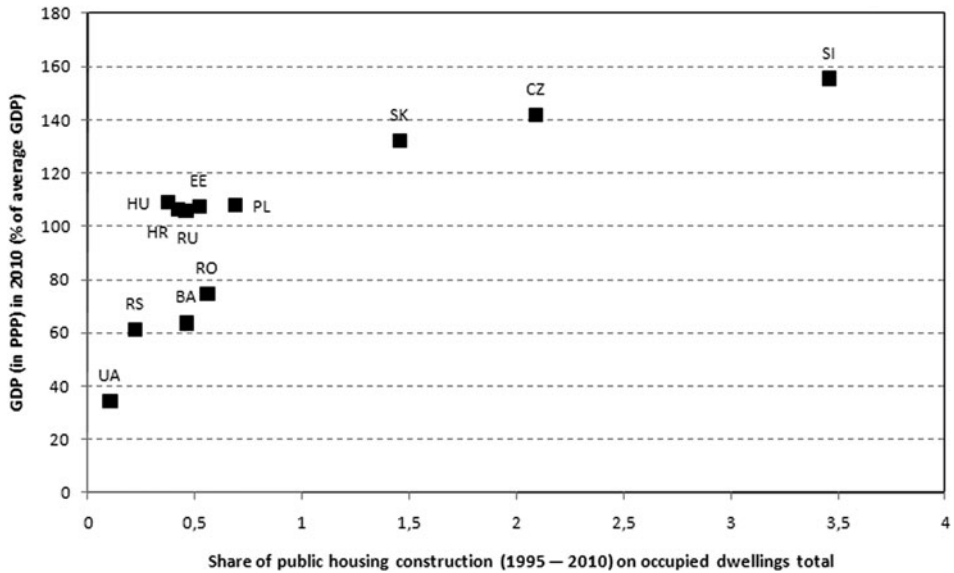


Figure 2. Relationship between total national wealth and public housing construction output, 1995–2010. *Source:* Hegedüs *et al.* (2013), World Bank, national statistical offices. Overall national wealth is measured as GDP estimated in terms of PPP in 2010. The wealth data have been rescaled on the basis of the mean GDP (PPP) of the sample of 12 post-socialist states examined in this study.

this does not seem to be the case. Slovakia and the Czech Republic have no definition of social housing at the central level, but in spite of this they had a much higher level of social/public housing output between 1995 and 2010 than most of the countries that have adopted a legal definition of social housing.

Despite differences in policies, attempts to reinvent social/public housing have proved to be (1) unsustainable in the long term and (2) ineffective. This is confirmed by the low effectiveness of all policies, including the market complement policies adopted in the Czech Republic, Slovenia, Slovakia or Poland. Second, in the Czech Republic, Slovenia and Poland, i.e. three of four countries with the highest social/public housing output between 1995 and 2010, the scope of new social/public housing construction decreased sharply recently. And third, the tenure status of social/public housing remains uncertain. Most of the new public housing in the Czech Republic finally acquired the status of cooperative (coop) housing, and in Slovenia and Poland the privatization of newly built non-for-profit housing in favour of sitting tenants is recently planned. New social/public housing output appears from the evidence to be strongly positively correlated with a country's GDP and negatively correlated with poverty. Moreover, the comparative evidence shows that the legal definition of social housing does not seem to have any influence on the size of social/public housing output.

6. Linking new social housing policies performance and historical context

It is appropriate at this point to highlight the structure of the argument presented in this article thus far. In Section 3, an overview of public housing under socialism was described and this was followed in Section 4 by a discussion of how the transfer of public housing to private ownership was implemented in post-socialist states after 1990; and finally in Section 5 the main features of new social/public housing policies after 1995 were evaluated. Taken together, these three sections represent the basic informational building blocks needed to answer the first research question outlined in the introduction: what are the reasons for the limited success of new social housing policies in post-socialist states after 1990?

As noted earlier, after 1990 the transfer of public housing to private ownership was implemented using give-away privatization policies where sitting tenants were the main beneficiaries. The motivation underpinning give-away privatization was to establish an effective housing market (Pichler-Milanovic, 2001). However, achieving this policy goal did not require the give-away sale of flats exclusively to sitting tenants. Consequently, there must have been other implicit reasons involved. Here two key implicit reasons will be highlighted.

The first reason was that politicians in post-socialist states were reluctant to make any real housing reforms because of the social and political unrest this would produce. Consequently, political leaders used housing policy to offset the declining living conditions of households as a result of other economic reforms. This strategic use of social policies to counter potential social unrest was employed in all post-socialist states during the 1990s (Vanhuyse, 2006). In the situation of high uncertainty, post-communist governments used housing as a 'shock absorber' to attenuate the social disruption caused by economic transformation and hence make the transition process politically feasible (Hegedüs & Tosics, 1998; Lowe & Tsenkova, 2003; Lux, 2003; Struyk, 1996). The give-away privatization was *de facto* a huge *ad hoc* economic subsidy to sitting tenants: a one-time policy that could never be repeated because of its enormous economic cost.⁴

The second reason stems from the fact that under socialism public housing was neither defined nor perceived as being social housing. Socialist public housing was effectively universal in nature. For this reason, the real tenure status of public tenants under socialism was much like that of owner-occupiers in market economies. The easiest way to use housing as a 'shock absorber' and hence satisfy the political goal of minimizing mass social unrest was to replace quasi-homeownership with legal homeownership: this formal change only confirmed the existing status of public housing.

There were some exemptions to this general pattern in countries such as Poland and the Czech Republic where the right-to-buy policy was not introduced. However, even in these two countries the homeownership rate increased. Strict rent regulation in public housing in these countries again distributed a substantial (generous) economic subsidy among public tenants, this time in the form of rents at below-market levels. This conservative rental policy created incentives for municipal landlords to privatize housing. Although adoption of a give-away privatization was postponed, ownership of substantial part of public housing was in the end also transferred to sitting tenants in the Czech Republic and Poland.

Consequently, it is not appropriate to label the give-away privatization of public housing in post-socialist states as a reform (Hegedüs & Struyk, 2005). Give away privatization reinforced existing inequalities evident in public housing allocations under socialism, and formalized the already existing quasi-homeownership entitlements of public tenants. In fact, give away privatizations proved to be an unprecedented economic subsidy for sitting public tenants. As emphasized earlier, this subsidy served as a 'shock absorber' and was a means used by political leaders to effectively manage fundamental economic and political change. By taking the de facto property rights of sitting tenants into account under socialism and thereafter, give-away privatization is the most salient example of path dependence in post-socialist housing policies.

Unlike the labour market where skills and education began to play an important role in salary and income differentiation, housing consumption preserved the pre-existing distribution of 'privileges' created under socialism. Consequently, the socialist legacy became crystallized (or fossilized) in the housing policies of post-socialist states to a much greater degree than in other state policies. The deviation from the reform process planned originally as a temporal shock absorber ended in long-term preservation of elements of the socialist legacy in new housing policies. This fact is evident not only in the conservative social housing policy described above, but is also apparent in the universalistic public housing allocation criteria applied in market policies defined above. The failure to adopt targeting towards the economically less well off in public housing allocation and adherence to an ideology of universal housing needs both point to the importance of the socialist legacy.

Public investment in new social/public housing construction faced a dilemma in the 1990s: spend public money to build housing with low rent targeting those in real need, or construct a larger volume of housing with higher rents (or prices) that would not be targeted specifically to those in greatest need. When faced with choice, most governments opted for the latter option. There are basically four explanations for this decision. First, the targeted option involved greater political and financial risks (see below). Second, the number of newly built dwellings under targeted option was unlikely to meet public expectations that were accustomed to relatively high levels of housing construction witnessed in the past. Third, another option offered greater benefits to the middle classes: a group that was critically important for driving the economic transformation process.

Fourth, non-targeted high volume housing construction was much closer to the socialist model—a system that the public both understood and trusted.

Although the give-away privatization of public housing was not a real reform measure and helped to prolong the socialist ideology in housing policies beyond 1990, it had serious and irrevocable consequences on citizens' house buying behaviour. Homeownership became the social norm and rental accommodation became socially undesirable, especially for long-term housing. Even in a country that did not apply right-to-buy policy, the Czech Republic, a special experiment showed that people's tenure preferences strongly skewed in favour of owner-occupation (Lux & Sunega, 2010). In systems where housing market did not function well, the social norm of homeownership created incentives for embarking on illegal construction projects—a situation evident in some post-socialist countries (Tsenkova, 2009).

The behavioural shift towards mass homeownership combined with institutional change in post-socialist states help explain the low sustainability of new social/public housing policies introduced after 1995. The main factor leading to the emergence of a homogeneous homeownership housing system may be termed a *privatization trap*; and the details of the mechanism leading to this undesirable outcome are summarized in the following five points:

- Once politicians started to privatize public housing originally allocated with no real needs assessment (and, therefore, occupied by rich and influential people) for give-away prices, they were politically unable to limit this process because of raised expectations.
- As public housing privatization was politically difficult to restrict, an unintended consequence of early privatization was the establishment of a social norm where all public tenants expected to buy their dwellings for a give-away price.
- As this norm acquired legitimacy in the new market environment, any new social housing programme is challenged by it, and as a result new social flats became often the subject of give-away sales to tenants.
- As the housing system was based primarily on homeownership tenure and state interventions are too weak to change this situation, irreversible residualization of social/public housing takes place.
- Divergence in early transformation policies resulted (surprisingly) in a convergence of all post-socialist housing systems due to this 'privatization trap': a residualization of social/public housing and rental housing in general.

In sum, these bullet points highlighting the interconnected stages in the 'privatization trap' mechanism show how initial privatization decisions had unintended consequences, where a 'trickle down' mechanism meant that past choices shaped subsequent decisions resulting in the path dependent process observed.

Another important feature of the economic reforms, in addition to privatization, was the decentralization of power: that is the dismantling central planning and the weakening of the state power in favour of giving more power to local governments. Here again, housing also played a prominent role. Political decentralization had many positive results such as bringing decision-making closer to the citizen. However, decentralization reform in the field of housing proved to be more of an obstacle than an impetus to the creation of sustainable social housing policies. This unintended consequence could be labelled the *paradox of decentralization*—a term with origins in behavioural economics.

If decision-making is decentralized to a large number of agents that are financially and politically weak, these decentralized decision-makers will have a strong risk averse to shirk any responsibilities that are seen to be financially costly or politically unpopular. In practice, municipal authorities are not likely to gain much credit for helping the poor—a minority of voters who typically have substantially lower levels of political participation. In addition, an initially effective social housing policy could be undone through the in-migration of poor claimants from other municipalities who would rapidly overwhelm the resources of the active small local authority.

Finally, an important contextual aspect of social housing policy in post-socialist states is the nature of the economic reforms themselves. If the legal system undergoes a radical change, there is always a danger of legal gaps emerging, thus weakening the power of law—at least during the transitional period. Such a situation of legal uncertainty creates incentives for illegal economic activities such as operating in the black economy, and reliance on clientelism, corruption and organized crime as a means of securing wealth. Under such circumstances, it is difficult to target social assistance towards the poor households on the basis of income. Official income and wealth declarations are not reliable, and consequently any means-tested policy is likely to be open to abuse.

7. Conclusion

With the exception of Slovakia, in countries with substantial new social/public housing output between 1995 and 2010, the social housing policies proved to be unsustainable in the long term. Countries where new social/public housing output expanded between 1995 and 2010 are currently experiencing a reversal of fortune. Consequently, the future for social housing looks bleak with the possible exception of Slovakia. The first research question concerned the reasons for low success of new social housing policies. The contextual factors undermining sustainable and effective social/public housing policies in post-socialist countries have a number of distinct sources:

- *The privatization trap*: when social/public rental housing is built, sooner or later there is a demand for its privatization, or it is transformed into *de facto* homeownership support.
- *The paradox of decentralization*: small and politically weak municipalities, i.e. the main social landlords, do not have sufficient fiscal sources to maintain an active social housing policy and refuse to make financially costly and politically unpopular decisions.
- *The black economy* makes it difficult to accurately estimate social and housing needs, and targeting social housing according to declared income is open to abuse.
- *Socialist legacy in allocation schemes*: the legacy of universal housing need and waiting lists in the allocation schemes of conservative social housing policies and ineffective targeting in allocation schemes of market social housing policies are principles evident in all post-socialist states.
- *Not-for-profit schemes* usually inspired by the French ‘Habitation à Loyer Modéré’ system have generally failed to gain long-term support and not-for-profit actors remain financially and politically weak.
- *A general lack of public finance* as a result of war, banking crises, economic transformation, recessions and budget deficits. The social housing programmes

have often been disrupted after several years, and there is a sharp discrepancy between the intentions and outcomes.

With some exceptions, the recent trends in new social/public housing construction are mostly negative: the Polish and Slovenian systems of support for not-for-profit housing have *de facto* ceased. Hungarian social housing policy has evolved into demand-side subsidies; and the scale of new public rental housing construction has declined substantially in Serbia, Ukraine, Russia and the Czech Republic. Ironically, stable or positive trends are only found in countries where there is little social housing output such as Bosnia and Herzegovina, Croatia and Estonia. The only exception to this general trend is Slovakia, but there the share of public housing in the total housing stock is still very low.

In some countries, such as the Czech Republic, Hungary and Slovenia, new means-tested housing allowances have started to play a crucial role in increasing housing affordability for low-income households. However, housing allowances alone cannot prevent growing social segregation, increasing discrimination in the housing market and worsening housing access for economically vulnerable households (Fitzpatrick, 1998). For example, the recent Czech housing allowance scheme tackles the problem of housing affordability but does not solve other increasingly acute problems such as the inability of poorer tenants to secure long-term accommodation on the open market. Consequently, social housing may get a new and original face but it is hard to imagine that post-socialist states can live entirely without it. This leads us to the second question addressed in this article: what is the future for social housing (a concept that evolved gradually in post-war Western Europe) in post-socialist states?

The recent discourse on forms of social housing in post-socialist countries is different from the discourse in post-war western democracies. Social housing is no longer perceived as one specific form of subsidy, nor is it perceived as a strictly supply-side subsidy instrument. Instead of massive state interventions into the housing market via long-term capital subsidization of public housing, social housing takes the form of central and local government programmes aimed at different target groups. Features of social housing such as decentralization, flexibility and social integration are stressed. A decentralized and flexible approach is likely to be the key characteristic of new social/public housing policies adopted in Central and Eastern Europe.

Consequently, it is not very likely that there will be an importation of western social housing ideas and practices that emerged during the post-war era. Neither can we expect any large-scale and fiscally expensive programmes that would create a substantial stock of social/public housing. Instead, there is likely to be a range of different state programmes targeting different types of households. The variation currently evident in municipal authorities' approaches to social housing is likely to increase. In practice, this multi-channelled approach will be reflected in such things such as small and targeted public projects, providing incentives for private developers and employing different forms of cooperation with private capital (Public Private Partnerships). In addition, there are likely to be innovative models attempting to use private renting for social purposes. These novel strategies reflect more the institutional context of post-socialist societies than historical models of social housing. The post-socialist perspective outlined in this article, therefore, offers a valuable insight into why past western social housing policies cannot serve as a model elsewhere.

Funding

The article was prepared under the Research Project sponsored by the Czech Science Foundation [grant number P404/12/1446].

Notes

- ¹ The following 18 country experts took part in the comparative survey: József Hegedüs, Martin Lux, Nóra Teller, Gojko Bežovan, Gorana Stjepanović, Alina Muzioł-Węclawowicz, Mina Petrović, Jüri Kõre, Srna Mandič, Andreja Cirman, Wolfgang Amann, Ioan Bejan, Alexandr Puzanov, Catalin Berescu, Irina Zapartina, Alexis Mundt, Petr Sunega and Anneli Kährik. The authors of this article gratefully acknowledge the invaluable data and expertise that each of these country experts contributed to this comparative study and also thank this research team for their contribution to the evidence presented.
- ² We use the term 'effectiveness' rather than 'equity' in this article. The reason is that equity, which is closely related to income distribution, need not be equal to housing consumption distribution; income inequalities do not have to fully reflect particular housing inequalities. The broader meaning of the term 'effectiveness' is therefore more appropriate for the purpose of housing policy assessment (see Lux, 2009).
- ³ Kornai (1992, p. 255) has argued that socialist regimes used non-wage benefits such as housing allocation as an effective means of social control. Individual consumption of goods and services obtained through money payments was constricted (deliberately or otherwise) and the share of collective consumption goods increased. As a result, the liberal free market component of social relations declined as state bureaucratic (communist) control increased.
- ⁴ An economic subsidy is a public subsidy that is often not reported officially and is typically distributed indirectly. It equals the difference between the market and the real (regulated) price of a good or a service. It is similar to lost income or opportunity costs. In housing, subsidies are the difference between regulated and market rents or the difference between preferential and market dwelling prices. Give away privatisations were the primary forms of housing subsidy during the 1990s. The literature on the post-socialist transitions process has been surprisingly silent on this fact despite its importance.

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Appendix. Rent regulation regimes in the post-socialist states

In 2011, there were only two countries with no central rent control regime: Estonia and Hungary. However, rents in public housing in both Estonia and Hungary remained low: in Estonia, they reflect official rent regulations and in Hungary various local political interests. In contrast, in Russia national rent regulations define the cost principle of public rent-setting and the specific status of low-income households (who only pay part of the rent). Additionally, utility service fees are set by the regional authorities. This makes Russia a country with one of the most conservative rent control regimes in the region. The situation in Ukraine is very similar to that in Russia. Consequently, the level of public rents remains very low in both countries. Very conservative forms of rent regulation with consequently low levels of public rent—flat-rate tariffs differentiated somewhat by specific criteria—are used also in Serbia, Slovakia and Romania. In Romania, rents are set according to a government decree in which basic cost tariffs are differentiated by specific coefficients that reflect the category of flat and its location. However, tenants eligible for social housing may in fact pay an even lower rent than tariffs: the maximum rent payable by tenants in public housing is 10% of the gross monthly income of a household.

Less constraining is a rent control in countries where maximum rents are calculated as a percentage of estimated (assessed) dwelling value (Bosnia and Herzegovina, Slovenia) or where they are computed as a percentage of the replacement costs (Croatia).

However, there are only two countries in the sample that did not abolish central rent regulation, but instead acquired the ‘second-generation’ (market-friendly) rent control regime: Poland and the Czech Republic. Since 2005, the only restrictions in Poland relate to rent increases, and caps are not set as tariffs but instead as the ‘justifiable’ growth level. In the case of a dispute, justifiability is decided by the court. Recently, rents increased to a level closer to market values. In the Czech Republic, the price deregulation of rents restarted in 2007. The

legislative act established an intermediary period during which the maximum rents for running tenancies were set to increase to 5% of the market value of the property. The intermediary period ended in 2012. In 2012, all rents were deregulated and a 'second-generation' rent control regime was established. This regime sets only a cap on rent increases to the level of 'locally relevant rent'.

Consequently, the interesting fact is that public rents increased much more in countries that did not apply right-to-buy policy and shifted later to 'second-generation' rent control regime (Poland and the Czech Republic) than in countries that introduced right-to-buy policy and, in at same time, abolished rent regulation regime soon after regime change (Estonia and Hungary).