



Research Team
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SOCIAL HOUSING IN EUROPE 2000

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Edited by
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Academy of Sciences of the Czech Republic

SOCIAL HOUSING IN EUROPE 2000

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Edited by Martin Lux.

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Introductory Address

JUDr. Michal Illner

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Reform of housing policy has been one of the crucial issues facing the Czech Republic in the last ten years. It is a task of immense social, economic and political relevance. Decent housing is a fundamental human need, and housing conditions are a key component of the population's living standard. Differential access to housing contributes to social inequality and is a powerful factor influencing social stratification. Governments' abilities to design and implement policies which satisfy housing needs bear in important ways on the political legitimacy that they enjoy. Housing policy also has important economic implications, as it places demands on public or private budgets and can stimulate the building industry.

The communist regime, its declared welfare orientation and egalitarian ideology notwithstanding, did not manage to solve the housing problem in the Czech Republic. The democratic society which came to life in 1989-1990 thus inherited severe housing shortages and the absence of a legal, functioning and transparent housing market. The same society also inherited an illegal or semi-legal shadow housing market which was also highly fragmented. In the 90s, the collapse of the former state-organized and state-financed forms of housing construction, not accompanied by new market-compatible housing policy, has led to a sharp decline of new housing construction and – as a result - to a very limited supply of new flats. This spontaneous development has particularly handicapped the lower and middle classes. The few new structures that were built were predominantly expensive houses and flats that were inaccessible to these classes.

In the light of these developments, the importance of a housing policy which would incorporate provision of social housing as one of its goals looms large. The Institute of Sociology of the Academy of Sciences, acknowledging this fact, has included the socioeconomic aspects of housing and, particularly, social housing, as an important theme in its research program. Co-operation with the Ministry of Regional Development (and, in particular, its Housing Policy Department) has been a productive feature of this research. The present conference on social housing in Europe which the Institute has organized in co-operation with the Ministry is part of the program and a concrete result of the co-operation.

On behalf of the Institute I have the pleasure to welcome participants of the conference and wish them a productive and interesting meeting. My special thanks belong to our foreign guests who came to share with us experience in social housing in other European countries, particularly those of western Europe. I am sure that their inputs will be most inspirational. The conference was made possible by the generous support of the Hungarian Cultural Institute, the Slovak Institute and the Polish Cultural Center in Prague. I also extend my thanks to them.

Prague, October 2000

Introduction

Ing. Mgr. Martin Lux
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The conditions of social housing operation has changed rapidly during 80s and 90s. In countries of the Central and Eastern Europe the whole sphere of housing became a subject to profound reform connected with the large transition of the economy and society towards market economy and democracy; in countries of the European Union these changes are connected with new economic theory and practice relying more on market forces than state investments.

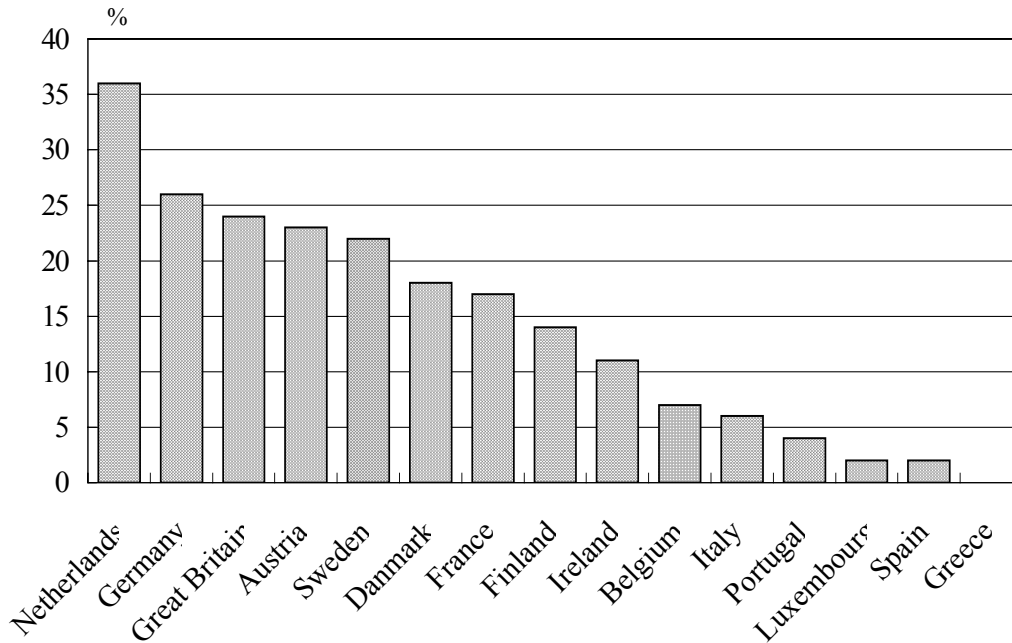
To avoid misintepretation it is necessary to define at the beginning what we will understand as social housing. Following the general understanding of the term in the EU countries the social housing comprises basically rental housing intended for households with a relatively low income (in fact, middle and low income) where rents are kept below market levels and whose construction and sometimes operation is supported by the public budgets (through direct financing, cost-sharing, gifting the land for construction, interest subsidies, preferential loans, goverment guarantees, tax and other legal advantages). The municipalities, housing associations owned by local authorities, private non-profit housing associations, other non-profit organizations (provided by church, trade-unions), housing co-operatives or even private for-profit persons and firms under special agreement with local authorities belong among main social landlords in countries of EU. Though, as we surely will see, the public budget support is sharply decreasing currently (mostly in countries having the highest share of social housing on the total housing stock in Europe) the term "social housing" is closely connected with public supply side subsidies in opposition to housing allowances representing the public demand side subsidies. With the exception of Greece we will find social rental housing in almost all European countries forming from 3 per cent (Spain) up to 36-37 per cent (Netherlands) of the total housing stock (Figure 1).

Therefore, we will not follow the narrow definition of social housing sometimes used in the Central and Eastern European (CEE) countries (e.g. Poland) according to which only the sector of rental housing designated for the lowest income households with the highest social need (unemployed, ethnic minorities, handicapped) is considered. Neither will we follow the wide definition of social housing according to which social housing is any part of the total housing stock (including the ownership sector) constructed with even the minimal assistance of public budgets (e.g., tax relief for mortgage interest repayments).

This international Seminar follows the similiar international Workshop organized by the Netherlands Graduate School for Housing and Urban Research in Nunspeet, Netherlands on March 1996 where over 40 housing reserchers and practitioners discussed the past, present and future social housing in Western Europe. To organize it in Prague now and with representatives of Central and Eastern European countries we want to put the base for future long-term research co-operation in that field between Central and Eastern European countries and coutries of EU.

Mr. Priemus wrote: "Social housing is not a very popular topic nowadays. It implies state involvement, uses taxpayers' money and it seems to be far from the market." I hope that our Seminar will show that necessary supply side subsidies aiming to encourage non-profit rental housing construction do not have to oppose to the market.

Figure 1: *Share of social housing on total housing stock, EU (in per cent)*



Note: The data for Germany includes the municipal housing stock inherited from period of communism in Eastern lands. In former West Germany the social housing formed 8 % at the end of 80's and 12 % in the middle of 90's of the total housing stock.

Source: *European Observation Unit for Social Housing, CECODHAS 1996.*

Recent Trends in European Social Housing

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Abstract: *My contribution to the conference 'Social Housing in the European Union 2000' deals with growth and stagnation in the social rented sector in Western Europe. I try to explain current and future changes in the market share of social rented housing. In addition, the changes within the social rented sector will be examined. In what respects is this sector changing and what is the social dimension of the social rented sector now and in the future? I give an overview of the current transformation from social housing to owner-occupation in large parts of the housing stock in most European countries. The general outlook is a declining or stable market share of social rented dwellings. There is no European country where an increasing market share of social rented dwellings is expected now. In countries where the share of owner-occupancy is very large, there is not much evidence of growth in this sector. Owner-occupancy may be expected to rise when the economy picks up, when mortgage interest rates drop, and when governments offer homeowners tax advantages. But owner-occupancy may stagnate or even decrease when the economy slows down, unemployment rises, the number of structural full-time jobs declines, urbanisation increases, the population ages, or when a large influx of immigrants from poor countries occurs. The development of social housing is connected with the development of the welfare state. Those who expect that the welfare state will disappear have sombre expectations about the future of social housing. When we expect a reconstruction of the welfare state and in the same time a bright future for this reconstructed welfare state, we may also foresee a new future for social rented housing. This sector has to be reformed by a privatisation of finance, a stronger market orientation and a greater efficiency. As long as the social rented sector is primarily oriented towards low-income households and as long as profits are reinvested in housing, social rented housing will maintain its 'social' profile. A differentiated social housing sector with a substantial size and with a differentiated tenancy mix may play a crucial role in preventing spatial segregation of income groups. In this way social housing can contribute to the sustainability of a modernised welfare state.*

1. Introduction

The Second World War left deep scars across Western Europe. While millions of dwellings were destroyed or damaged, the production of new housing lay dormant during the war. Then, when construction started up again, the capacity of the building sector was too low to compensate for the housing shortages quickly. There was also an acute shortage of capital; eventually, the Marshall Plan brought some solace. Once the capacity of the building sector had been stepped up, precedence was given to the construction of factories, harbours, and transport infrastructure. Each country gave priority to the reconstruction of its economic base.

Governments throughout Western Europe intervened in their housing markets. They imposed rent controls, as scarcity threatened to push housing prices up. Investors were not eager to put large amounts of money into dwellings. Not only was the yield on investment in housing low, it was also risky. The high risk was partly due to the extent of government intervention in the housing market. Furthermore, the conditions after 1945 were not conducive to the rapid growth of home ownership (Priemus & Dieleman 1997).

As pointed out by Peter Marcuse (1995), the history of public housing reflects a set of major forces in conflict with each other, producing quite different programmes at different times, all under the rubric of 'public housing'. Indeed, Marcuse identifies seven separate

programmes of public housing in New York. In the same vein, the social housing sectors of Western European countries do not belong under one and the same heading. On the other hand, it is no coincidence that the 1950s and 1960s -- the period of reconstruction -- formed the heyday of the social rented sector in many Western European countries. Subsidies were granted to make investment in dwellings possible again, despite controls on rent. The traditional market parties had retreated in light of the unusual conditions. Therefore, the social rented sector was assigned a prominent role in the effort to accelerate new construction.

Initially, the emphasis was on quantity. The new dwellings were built expressly for households with a modest income. At the same time, the amount of subsidy was limited. Under these conditions, the new housing was rather austere. Since the 1960s, the authorities have looked to technological innovations to enhance the quality of new housing. National governments in Western Europe, and even more so in Central and Eastern Europe, subsidised industrial -- that is, prefab and poured concrete -- construction methods, but the technology posed some constraints. Most of the companies that used these methods were specialists in high-rise building. Furthermore, the structures had to be built in large series to keep the initial construction costs within bounds.

Under these constraints, market parties such as investors and developers were very reluctant to get involved. For the most part, they gave modern construction methods a wide berth. Government, in contrast, assessed the situation differently. They saw that labour-saving construction methods held great promise for the future. Over time, the industrial approach would lead to lower prices and a much better quality than could be achieved by traditional methods of housing construction. Accordingly, the application of industrial housing construction methods became more or less mandatory in the social rented sector. Entire districts consisting of monotonous high-rise social rented dwellings sprang up, intended for households with a modest income (Power 1993).

Whether or not these construction methods had a labour-saving effect (some dispute this point, arguing that the labour input was only shifted from the building site to the factory) is just one side of the coin. After only a few decades, it turned out that an extremely high input of labour was still needed in these monotonous and unpopular neighbourhoods. The task at hand was to redifferentiate the dwelling supply and reposition the units on the housing market. At present, the massive high-rise housing estates dating from the 1960s and 1970s constitute a major problem in the stock of social rented dwellings everywhere.

The heyday of social rented housing construction was in the 1950s and 1960s. In some countries, the sector continued to thrive throughout the 1970s (Great Britain) and on into the 1980s (Sweden and the Netherlands). But at some point after its peak, many governments seem to reconsider the position of the social rented sector (Dieleman 1994; Priemus 1995). As soon as housing markets return to normal, rents are deregulated, and the home-owner sector picks up, it seems that the share of social rented dwellings in new construction can be much smaller (Harloe 1995). At that point, the sale of the stock of social rented dwellings becomes a political issue.

2. From growth to stagnation

Social housing is not a very popular topic nowadays in the European Union. It implies state involvement, uses taxpayers' money and it seems to be far from the market (Priemus 1996, 1997). After the Second World War, there were two victors on the West European housing markets: home ownership and the social rented sector (Danermark & Elander 1994). In some Eastern European countries only one tenure prevailed: the public housing sector. Since privatisation has continued in Western Europe and communism has lost its monopoly in

Eastern Europe, one sector has been triumphant across the European continent: home ownership.

In many countries a reduction of the social rented sector is now being openly or indirectly pursued (Boelhouwer & Van der Heijden 1994). New construction of housing for social renting is avoided as much as possible. The selling of social rented dwellings is advocated more and more, since 1980 in the UK, but now also across Europe.

In Eastern Europe the public rented sector is in outright crisis. In several West European countries, the market share of the social rented sector is either in decline or has leveled off after decades of growth. The most obvious trend we can observe is stagnation in the social rented sector.

My contribution to this conference 'Social Housing in Europe 2000' deals with growth and stagnation in the social rented sector in Western Europe. I try to explain current and future changes in the market share of social rented housing. In addition, the changes within the social rented sector will be examined. In what respects is this sector changing and what is the social dimension of the social rented sector now and in the future? These are the themes of my presentation.

Table 1: *Housing stock by tenure, European Union, about 1990 (estimated percentage of stock in given tenure groups).*

Country	Owner occupied	Social rented	Private rented	Other
<i>Belgium</i>	65	6	28	1
<i>Denmark</i>	52	24 ¹⁾	18	6
<i>France</i>	54	17	20	9
<i>Germany</i>	38	15	43	4
<i>Greece</i>	77	0	23	-
<i>Ireland</i>	81	11	8	-
<i>Italy</i>	67	7	21	5
<i>Luxembourg</i>	68	1	30	1
<i>Netherlands</i>	45	40	15	-
<i>Portugal</i>	58	4	35	3
<i>Spain</i>	78	2	16	4
<i>UK</i>	67	26	7	-
<i>Austria</i>	50	18	21	11
<i>Finland</i>	71	14	13	2
<i>Sweden</i>	43	36 ²⁾	21	-

Notes: 1) Includes 7 % of the stock managed by cooperatives.

2) Includes 15 % of the stock managed by cooperatives.

Source: Oxley, 1996.

3. From social housing to owner-occupation

In the development of housing in West European capitalist societies Michael Harloe (1995) distinguishes three phases. In the period of industrialisation and urbanisation a large part of housing was supplied via the market, mainly by private landlords. After a number of decades

this tenure has now been replaced for large sections of the population by another 'commodified' form of housing: home ownership. Harloe regards the third large form of housing, the relatively 'decommodified' social rented sector, as a product of a relatively short period, notably after the Second World War, when the possibilities of the private rented sector on the housing market had sharply decreased and the necessary economic conditions for a strong growth of the owner occupied sector were not yet present. Harloe therefore sketches the social rented sector as a transitional form that had to bridge the period between private renting and home ownership. If this view were correct, not only would the private rented sector be doomed to extinction, but the future would also be extremely sombre for the social rented sector.

Kemeny (1992) emphasises the embedding of housing in the social structure. In doing so he focuses on the concept of 'residence': the combination of household and dwelling. "Housing comprises such a fundamental and major dimension of social structure that the study of residence can and perhaps should be the central contribution of housing studies to our understanding of society" (Kemeny 1992, xviii).

According to Kemeny, housing is the crucial link between the welfare state and the social structure. This illustrates the importance of housing to the social structure, and the central role that housing plays in social services supplied by the government. This approach seems a fruitful one. If the future of social rented housing were so dark as Harloe (1995) predicts, this would imply that the future of the welfare state would be in danger. There is no persuasive reason for such a pessimistic outlook on the European welfare state.

It can be agreed that the development of the social rented sector cannot be understood in isolation. The development of the social rented sector, in both a quantitative and a qualitative sense, is closely connected to the emergence and reforming of the welfare state, a process that can be observed throughout Western Europe. It has to be seen in relation to the overall tenure composition of the housing stock.

In most of these countries, the social rented sector flourished just after the Second World War. In that period, these nations were struggling to overcome an acute housing shortage. The reconstruction of infrastructure and the industrial plants was given highest priority everywhere. Meanwhile, the market parties showed little interest in building new housing. In many countries, the national government took the initiative by extending loans and providing subsidies. Although some of these measures were visible (property subsidies, for instance), they were often intangible at first (loans at interest below the market rate). Rents were regulated. Under such conditions, it became possible to build housing that was targeted directly to starters on a moderate income. The price mechanism no longer kept the housing market in balance. Therefore, housing allocation systems were introduced throughout Western Europe. The quality of housing was not determined by the demand side. The perceived need to increase the production volume stimulated the building of high-rise estates, often at the wrong locations (Danermark & Elander 1994, Power 1993).

Ghèkière (1996) looked into the tenure composition of the housing stock in all the countries of the European Union. He found that the majority of the units are in the owner occupied sector; its share is 56 percent and rising. In contrast, the share of the commercial rented sector, currently 21 percent, is declining. The social rented sector is trailing slightly behind it, with 18 percent of the stock. The remaining 5 percent is classified as 'other', which includes co-operative housing. In absolute numbers, the UK, Germany, France, and the Netherlands have the largest stocks of social rented housing. The social rented sector remained a marginal phenomenon in a number of EU member states: Belgium, Luxembourg, Spain, and Greece. The countries with the biggest proportion of social rented housing are the

Netherlands, Sweden, the UK, Denmark, Austria, France, and Germany. It is in these latter nations that we can detect the various stages and the diverse institutional strategies by which the social rented sector was able to thrive. First, the volume of new construction declines, either abruptly or gradually. Then the rate of growth in the social rented sector tapers off, and in some countries, new construction in this sector even comes to a halt.

Oxley (1996) points out that housing investment has been falling in many countries since 1970. It can be added that investment in social housing has also been falling, in both absolute terms and as a proportion of total investment. The source of this stagnation lies in the perceived need to cut government spending, and in the fact that the market parties are both willing and able to take the initiative to build new housing. In the UK, the Right-to-Buy was introduced in 1980. This legislation triggered a steep decline in the share of the social rented sector. In other countries the selling of social rented dwellings is discussed. The general outlook is a declining or stable market share of social rented dwellings. There is no European country where an increasing market share of social rented dwellings is expected now.

4. Changes within the social rented sector

First, there is a general trend to replace government loans by loans taken out on the capital market. In this manner, the discipline of the market enters into the decision-making on investment plans. In addition, this shift corresponds to the policy of cutting back on government spending and giving the market more scope.

Second, subsidies are made tangible by moving from low-cost loans to outright property subsidies, but these property subsidies then make way for housing allowances. Because the housing shortages are being reduced, incentives to increase the supply are not considered as urgent as they once were. Instead, subsidies tend to be linked to household characteristics, and to income in particular, allowing the funds to be targeted more precisely. This is more in keeping with the aim of improving the working of the market while getting a tighter grip on government spending.

To the extent that property subsidies decline, there is more scope for a market-oriented rental policy (Kemeny 1995). The dividing line between the social rented sector and the commercial rented sector becomes hazy. Market considerations are also increasingly important in the social rented sector. The role of government, whether local or national, is shifting from that of a provider to that of a facilitator. In its new enabling role, government steps back to work out the rules of the game for the social landlords. Yet government cannot retreat entirely from the field. Public agencies still have to ensure the maximum effectiveness and efficiency of the subsidies and other kinds of support that have been given in the past and will be given in the future.

In the Netherlands, the housing associations have to comply with one general requirement and four specific ones. The general provision is that a housing association must conduct its business solely in the interest of housing. The four specific ones are the following:

- Give priority to housing the target group;
- Guarantee financial continuity;
- Provide satisfactory quality in the housing stock;
- Consult tenants on management issues and on general policies of the housing association.

Two more requirements have been added recently:

- Invest in the quality-of-life of the housing environment;
- Invest in new dwellings if there is a housing need and if the housing association has the means to do so.

Social rented housing is not always successful. Success depends on several variables:

- The price/quality ratio of the inherited housing stock;
- The professionalism of the housing managers;
- The financial strength of the housing association;
- Prevailing housing market conditions and the competition on that market;
- State and local housing policy and its tools, such as government loans, guarantees, subsidies, tax advantages, tenant security, and rent regulation.

5. Strong and weak points of home ownership

Home ownership is being promoted throughout Europe, from East to West, and the share of this sector is growing rapidly (Emms 1990; Barlow & Duncan 1994; McCrone & Stephens 1995). But virtually all these countries are in for a bumpy ride. We see strong swings in the process in Finland, Sweden, Norway, Denmark, the Netherlands, and the UK. The development of their owner-occupied sector is closely tied to developments on the capital market. When the economy slows down and/or mortgage interest rates are high, the owner occupied sector goes into a severe slump. Fiscal support cushions the impact of these swings; the higher the mortgage interest, the larger the deductions for income tax.

Home ownership is an appealing option if a person has a high income, good prospects for stable employment, a steady job (or an otherwise strong position on the labor market), and no intention to move, at least not too often. Owner-occupied dwellings are often single-family homes with a yard. They are ideally suited to families with children at home -- previously, currently, or in the future.

However, home ownership also has major drawbacks. First of all, it is not a flexible tenure. The decision to move ushers in a series of problems. Not only do homeowners have to sell the old dwelling, but they have to arrange a mortgage for the new one. It is no coincidence that the turnover rate is lower in the owner-occupied sector than in the rented sector. Second, home ownership does not mesh with flexible labour markets. Without a regular salary, young people cannot make the kind of long-term commitment that home ownership requires. It is a fact of life: if you want to become a home owner, you need a steady job and good income prospects for the future. The third drawback to home ownership relates to the availability of owner-occupancy units. Home ownership rates are usually relatively low in urban areas, where most dwellings are in multi-family structures. The condominium sector does thrive there, but owner-occupied apartments have gained only a modest market share in Europe (Van Weesep 1986). And the last drawback is that owner-occupancy is always risky. It is sensitive to swings in mortgage interest rates and changes in real estate prices. Homeowners who took out a mortgage may end up with negative equity. A household needs enough financial leeway to cope with the risks of home ownership.

In countries where the share of owner-occupancy is very large, there is not much evidence of growth in this sector. Owner-occupancy may be expected to rise when the economy picks up, when mortgage interest rates drop, and when governments offer homeowners tax advantages. But owner-occupancy may stagnate or even decrease when the economy slows down, unemployment rises, the number of structural full-time jobs declines, urbanisation increases, the population ages, or when a large influx of immigrants from poor countries occurs.

6. Characteristics of the social rented sector: then and now

There will always be an argument in favor of rented dwellings, whether commercial rented or social rented. In the current situation, it is more difficult than in the past to define commercial and social rented dwellings and to make a clear distinction between the two sectors (Oxley 1995).

Until recently, it seemed to be a straightforward matter to define the social rented sector:

1. Its housing was frequently built with the help of state finance.
2. Its housing was subsidised by the national government.
3. Its principal and administrator was either the local council or a non-profit organisation operating under the watchful eye of the government.
4. Its rents were held under market levels (housing need > housing demand).
5. Its dwellings were intended for, and largely occupied by, low-income households.

The combination of 'target group + low rent + good quality' gave this sector its unmistakable social identity. Would it be true to say that these characteristics apply today? Or were they left behind long ago? And if they no longer apply, then what is so social about the social rented sector nowadays? The rest of this section is devoted to this question, elaborating upon each of the five characteristics.

1. The first characteristic (public loans) applies to fewer and fewer cases. When governments have to cut costs, they often do what they can to replace public loans with private finance. The Dutch government has provided no public loans for new housing projects since 1988. In most other West European countries, public loans have become extremely unpopular. The Netherlands has set up a guarantee structure in the social rented sector. This means that the cost of a private loan is only slightly more than what a public loan would have cost. We may conclude that the nature of the loan -- that is, whether the loan financing is public or private -- is no longer a criterion for the definition of social housing.

2. Social rented housing has traditionally been subsidised; this has allowed rents to be kept relatively low. At first sight, this characteristic would certainly seem to be relevant to the question of whether a given housing group belongs to the "social sector". But there, too, some caution is warranted. Many West European countries have seen a gradual shift from property subsidies to housing allowances. This is a tactical matter: how much more or less effective are subject subsidies than object subsidies? In mobilising the housing supply, property subsidies may be the better policy instrument. But in targeting subsidies to the households that are most in need, housing allowances or housing vouchers may be preferable.

Moreover, the actual need for subsidies depends on several factors. For instance, if interest rates are very low, affordable rents may be achieved without property subsidies. Subsidies may then take the form of 'interest subsidies', which are only available when interest levels rise above a certain level. Again, subsidies may not be necessary if certain taxes do not apply to the dwelling or to the landlord. Such tax benefits can even take over the role of subsidies altogether. And, last but not least, subsidies may not be linked to the real estate but to the managing organisation -- that is, to the housing association or housing corporation, as is the case in the Netherlands today.

Provided it is possible to build and to manage good housing that lower-income groups can *afford* and to which these groups have *preferential access*, it can be said that a social housing sector exists. Past subsidies can also be taken into account. In many cases, an unsubsidised social rented sector is not a feasible option. In other words, social housing is often subsidised

housing, but subsidisation is not a *necessary* condition for a dwelling to be classified as social rented housing.

3. To what extent is it still true that social-rented accommodation is developed and managed by municipalities or non-profit private organisations subject to strict government supervision?

If dwellings are managed by 'private' commercial organisations, then we may expect these organisations to display market-sensitive behaviour. If accommodation is scarce, the rent price should go up. After all, commercial suppliers of housing have no problems with risks selection of tenants or with the rationing effect of a market price, provided that this does not mean empty properties. However, a free market of commercial suppliers is the worst possible guarantee of affordable housing for low-income groups. Unfortunately, if housing allowances are introduced into such a market, there is a danger that the rent prices will be pushed up. In that event, housing can become virtually unaffordable, and the housing allowances themselves could become worthless. An unacceptably large part of the support extended to a tenant goes to his landlord instead. Landlords do not usually put these profits back into their property. However, if they are obliged to invest all surplus profits in their housing stock, this can considerably improve the effectiveness of such public assistance schemes. This may be considered to be the crucial test: rented housing is defined as social rented housing when the landlord puts any surplus back into his property. Social landlords are certainly not all public authorities, such as the local housing authorities we see in the UK. Nevertheless it is extremely practical, if not to say desirable, that such landlords operate on a non-profit basis, that they are obliged to put any surplus back into the social housing stock, and that they operate under effective government supervision. For its part, the state's responsibilities include ensuring that government subsidies are employed efficiently and effectively, that profits are ploughed back into social housing, and that low-income groups are thereby actually helped to obtain adequate housing.

4. According to some commentators, it would be better if social landlords were guided by market rent prices. This would be the most 'logical' and 'natural' choice, they argue. In the long term, it would provide a sufficient supply of housing, and the market would be balanced. Housing allowances or housing benefits alone would then ensure that good housing stayed within reach of low-income groups.

In theory, this approach is logical and consistent. In practice, however, it undermines its own aims. First, the competitive position of rented housing would become very weak in comparison with the owner-occupied housing sector, which is accorded fiscal advantages everywhere (Haffner 1994). Second, the policy instrument of the housing allowance would be placed under enormous pressure. The subsidy amounts involved could rise markedly, and these costs would be difficult to control. Last, and by no means least, such an approach would entirely negate the effects of previous measures aimed at keeping rents low in certain sections of the housing stock.

5. It would therefore seem that the most effective approach -- and one that complements past housing policy (that found in most West European countries, at any rate) -- would be based on a revolving fund principle. The goal would be to keep rents in a sufficiently large part of the housing stock low enough to be affordable for the target group defined by the country's social housing policy. This group would have to be further defined. For example, it might comprise those households with a lower-than-average income.

If rents are increased to market levels, there is no longer any point in talking about a social rented sector. A modest rent level below the market price would therefore seem to be a necessary condition to qualify as social rented housing.

Finally, let us consider whether this housing is intended for and occupied by households with a relatively low income. After all, the existence of social rented housing, is justified by its importance to low-income groups, who would not be able to afford decent housing if it were not for this specific form of assistance. Social rented housing, then, should be primarily intended for and allocated to this group. Naturally, a household's income may eventually rise. But this should not mean that the tenants would then have to move out.

The precise definition of the target group of the social rented sector, and therefore its size, can be determined in the course of political negotiations. The concrete results of this process include indications of the required size of the social housing stock and its maximum rent levels. It can also take into account the fact that a proportion of the commercial rented sector is already marketed at a rent price that is accessible to the target group.

7. Toward a market-oriented profile of the social-rented sector

The characteristics of the social rented sector are as follows: its dwellings are intended for households with a relatively low income; they are preferentially offered to this group; their rents are kept below market levels; and their landlords are non-profit organisations, either effectively controlled by or comprised of local and/or national government. Some sort of subsidy is usually involved in order to make it possible to attain these goals, but this is not strictly necessary.

The critical differences between the social rented and the commercial rented sector is the objective pursued by the landlord. Landlords in the commercial rented sector have goals outside housing (profits, pensions, insurance), while social landlords have goals inside housing. Non-profit housing provision does not mean that no profits are made. The decisive criterion is reinvestment of surpluses into housing. This opens the door to cross-subsidisation and rent pooling. Especially in Germany, the distinction between the social rented sector and the commercial rented sector is vague.

All over Europe, the three basic criteria of social housing and housing policy are affordability, accessibility and quality. Under certain conditions, free markets do not guarantee that each of these three criteria will be met, especially for low-income households. Implicitly or explicitly, there is always the idea of housing need -- that is, certain housing norms about affordability, accessibility and quality -- which has to be met, even in unfavourable circumstances, also for low-income households.

It is always advisable to take the self-regulatory tendencies of housing markets into consideration. Both the owner-occupied sector and the commercial rented sector accommodate segments of the target group in dwellings that are affordable and of acceptable quality. In this respect, there is no reason to criticise the performance of commercial landlords and mortgage banks. Only social landlords have a specific responsibility to accommodate low-income households. How we define the target group at the bottom end of the housing market is a matter of policy, reflecting choices and priorities.

The target group of housing policy has traditionally been viewed as a group that government had to take care of. In practice, that invoked a culture of dependency, which was accompanied by an irritating bureaucracy. In the modern social rented sector, landlords recognise that the target group has preferences too. Furthermore, landlords are also aware that they have to respond to these differentiated and shifting needs. What it comes down to is not

a change in mission but a change in approach: the social rented sector has to become market-oriented. Consumer panels can be consulted on a regular basis to determine which services the clients need and how the residents evaluate those services that are provided.

The social rented sector also has to be effective and efficient. The provisions it offers should reflect the aims of the social rented sector. At the same time, these provisions should be delivered on competitive price/quality terms. In general, housing associations deal with a wide range of stakeholders. These include renters, the municipality, other housing associations, financiers, guarantors, and supervisors. It might not be a bad idea to compile achievement scores -- once a year, for instance -- to show the internal and external stakeholders what financial and social provisions have been delivered (Van der Zon 1995). To do so would increase the transparency of the tasks performed by social landlords.

The aims of market orientation, effectiveness, efficiency, and transparency are furthered by private, independent social landlords who operate within clearly circumscribed public frameworks. As soon as municipalities take over the task of renting out housing, the relation becomes clouded between the role of the social landlord and the political decision-making function of the local authority. In this light, municipal ownership of housing does not seem very attractive.

8. Towards a differentiated tenant mix

The new housing built in the fifties and sixties still reflected a strong emphasis on the social rented sector (Oxley & Smith 1996). Now every government promotes filtering: relatively expensive dwellings are added to the stock, chiefly in the owner-occupied sector, and it is assumed that via filtering in the stock, a sufficient number of affordable dwellings for rent are freed to house also low-income households. If this approach is maintained year in year out, there is every possibility that an increasing spatial segregation will come into being, resulting in 'income districts': concentrations of high-income groups outside the city in the suburbs, and concentrations of low-income groups in a number of city districts, above all in high-rise districts. Needless to say, these income differentials tend increasingly to be connected with ethnic differences. The spatial pattern of no-go areas in American cities and the wealthy suburbs in the United States that most Europeans abhor is also coming ever-closer in Western Europe. One day the social costs of this spatial segregation could also mount up to considerable figures even in Europe.

The social rented sector can play a crucial role in promoting or preventing spatial segregation. The size of this sector could be an important factor. Social rented housing generally seems to exist all over the world in two forms: one representing a sector of limited size in which arrangements are largely independent of the wider housing market, and the other being a large and differentiated sector with a much clearer market sensitivity. An example of the first category is the American public housing sector, in which rents are held at 30 % of their tenants' income; here, housing expenditure is entirely independent of the quality of the housing itself. An example of the second category is the Dutch social rented sector, which constitutes 40 % of the country's total housing stock and whose rent levels much more closely reflect the rest of the Dutch housing market. Neither of these two extremes actually is attractive. A small and market-indifferent sector soon becomes socially stigmatising, unable to house any but the most marginalised groups. A large sector with market rents eventually loses its social function and therefore becomes effectively unable to provide help to the lowest-income households (Priemus 1995).

The most effective approach would seem to be one in which a relatively broad and differentiated rented sector contains a core supply of housing which is kept accessible to the

lowest-income households. Financial support is concentrated on this core supply, but the transition to the commercial rented sector is made a gradual one, with no gap between the social and the free market housing sectors.

A social rented sector designed for the poor will be 'poor by design'. The crux of the matter is that a marginalised sector will foster the development of a social stigma and spatial segregation. And social exclusion is something that politicians all over Europe want to prevent. The most promising solution would be for social landlords to give priority to housing the target group. At the same time, they should also attract a broader base of middle-income groups to improve the socio-economic mix in their housing stock. This also means that a socio-economic mix in new housing areas must be realised. One has to build not only for rich people filtering up but also for starters and people with a modest income.

Housing allowances play a crucial role in making the more expensive parts of the housing stock of social landlords affordable to low-income households. Under certain circumstances, especially when the housing shortage is acute, property subsidies may be provided not only to social landlords but to commercial landlords as well. The intent is to stimulate them to build housing that is within financial reach of low-income households. In such situations, social landlords have to compete with commercial landlords. But the social landlords remain the most important owners of a housing stock that the target groups can afford, even in the long run.

One problem that is specific to the social rented sector is that it proves to be very hard to allocate public funds to housing. This seems to be a problem everywhere. Apparently, it is not enough to point out the direct utility of shelter. More arguments are needed. One reason to earmark public funds for housing is the fact that decent housing fosters socio-economic integration of population groups and thereby helps establish a socially balanced situation. Another might be the significance of good housing for the physical and mental health of the public. Yet another reason could be the economic impact of decent housing: its contribution to economic stability, economic growth, and employment. The list goes on. A modest rise in rents tempers the rate of inflation, takes the punch out of trade unions' demands for higher wages, and strengthens international competition indirectly. Good housing can promote personal safety, prevent spatial segregation between central urban areas and the suburbs, and reduce expenditure on welfare. It is painful to admit that the relation between shelter and these wider issues have been grossly neglected in policy and research so far. Hopefully, housing researchers will take this to heart and see it as a challenge for the coming years.

9. Conclusions

The development of social housing is connected with the development of the welfare state. Those who expect that the welfare state will disappear have sombre expectations about the future of social housing. When we expect a reconstruction of the welfare state and in the same time a bright future for this reconstructed welfare state, we may also foresee a new future for social rented housing. This sector has to be reformed by a privatisation of finance, a stronger market orientation and a greater efficiency. As long as the social rented sector is primarily oriented towards low-income households and as long as profits are reinvested in housing, social rented housing will maintain its 'social' profile. A differentiated social housing sector with a substantial size and with a differentiated tenancy mix may play a crucial role in preventing spatial segregation of income groups. In this way social housing can contribute to the sustainability of a modernised welfare state.

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Trends and Change in Social Housing within the European Union: Financing the New Challenges

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Abstract: *Despite the advent of the Single Market and the Euro, the European Union exhibits considerable diversity in its social and economic arrangements in a number of important spheres, not least housing. EU national housing systems differ markedly and interact with national economic structures, welfare regimes, social trends and policy agendas. This paper focuses on the social rented sector and its financing. It maps out trends and sources of change, divergence and convergence across selected EU nations. The approach taken in the paper is from an applied economics perspective. The paper draws heavily on the UK experience and from secondary sources from other EU nations.*

The paper begins (after the introduction) with a brief critical description of the main ways social housing is organised in the EU. This is followed by an overview of social housing finance, public spending and subsidy mechanisms. The fourth section considers the main trends and drivers that will impact on social housing and its funding. The fifth section sets out some of the key challenges consequently facing the non-market sectors across the EU. The concluding discussion raises issues for further inquiry but concentrates primarily on the implications of the foregoing discussion for CEE countries.

1. Introduction

Despite the continuing progress of European economic integration, the European Union exhibits considerable diversity in its social and economic arrangements in a number of important spheres, not least housing. EU national housing systems differ markedly and interact with national economic structures, welfare regimes, social trends and policy agendas. This paper concentrates on the social rented sector and on its financing. The purpose of this paper is to review developments in EU social housing finance with a view to draw lessons for CEE States. The paper is therefore concerned with different models of social housing and funding, the drivers of change confronting social housing and the implications this has for the transforming economies in Central and Eastern Europe.

The paper draws heavily on the UK experience and selections from the published European housing literature. Throughout, the focus is primarily on a limited number of 'ideal types' of national housing system (UK, Sweden, France, Germany, Spain, Netherlands). This is simplistic but the objective is to draw out clear messages rather than become lost in the detail of different national systems. The choice of these specific nations is explained below. One has, of course, to be careful conducting comparative housing research (see the methodological discussion in chapter one of Kleinman et al, 1998). This paper concurs with the view expressed by Kemeny (1992) that careful comparative housing research needs to be more grounded in explicit individual disciplinary research. In this paper, applied economics underpins the analysis. However, one should remain mindful of the potential pitfalls in comparative analysis – different contexts, institutional

arrangements, economic structures, policy instrument design, comparable data, etc. In this paper, however, we are more concerned with general messages.

The paper begins (after the introduction) with a brief critical description of the main ways social housing is organised in the EU. This is followed by an overview of social housing finance, public spending and subsidy mechanisms. The fourth section considers the main trends and drivers that will impact on social housing and its funding. The fifth section sets out some of the key challenges consequently facing the non-market sectors across the EU. The concluding discussion raises issues for further inquiry but concentrates primarily on the implications of the foregoing discussion for CEE countries.

Before continuing with section 2 of the paper, it is useful to make a few introductory comments, contextualising housing within the European Union as background for the rest of the paper. There are a number of stylised facts worth bearing in mind.

Housing tenure. The pattern of tenure varies considerably across the EU. Balchin (1996) structures his analysis according to the dominant tenure in specific countries (for the EU as a whole, social housing was 18 % of all housing in 1995). In any individual economy, the tenure structure outcome is a result of past history, institutional and legal developments, housing policy and wider socio-economic drivers. We should certainly not assume that social housing plays the same role and houses similar types of tenants across the EU. Furthermore, as McCrone and Stephens (1995) argue, there is no necessary connection between a particular tenure structure and economic performance. However, the social sector is in decline across Western Europe and is increasingly associated with the 'new poor' and social exclusion (Maclennan et al, 1997). Despite the importance of migration within and into the EU, the general picture is of declining (and eliminated) housing shortages (combating shortage being the original purpose of social housing).

Public spending on housing policy. Maclennan, et al (1997) divide EU nations up into four groups. First, there are those economies with large social sectors and who commit 3 % or more of GDP on housing policy (Netherlands, UK and Sweden). Second, those economies with larger private and social rented sectors and who typically commit 1-2 % of GDP (Austria, Germany, France and Denmark). Third, southern European countries with large owner-occupier sector spending less than 1 % of GDP on housing policy (Spain, Portugal and Greece). Fourth, there is a residual, disparate group who have large owner-occupier markets, relatively small social sectors and who commit 1 % of GDP (Ireland, Italy, Belgium, Finland and Luxembourg). In this paper's analysis, at least one country from each group has been selected for more intensive analysis (but all three from the first group).¹ The 'typical' shares of GDP alluded to above, however, have to be qualified by long term reductions across the EU in public spending on housing (again, with much diversity apparent).

Role and purpose. It has been argued that social housing's heyday occurred in the 1950s and 1960s when it operated as a useful planned mechanism to produce large volumes of housing to meet acute housing need. This was a bureaucratic welfare state solution to social need (Priemus and Dieleman 1999, 624). However, the broad elimination of that shortage and the need for States to retract themselves from their extensive social

¹ The basic idea here follows the methodology of Diana Kasparova, a research student at the University of Glasgow. Extreme or ideal type national housing systems are identified (Nordic, southern European, ore EU, etc.), in this case on the basis of tenure share and typical public spending on housing. Furthermore, the three higher spending examples (UK, Sweden, Netherlands) are also examined for convenience (i.e. the extent of existing research).

housing commitments in changed, more market-oriented and individual choice based societies of the 1980s and 1990s, has led to a decline in the fortunes of social housing. This has combined with the longer-term consequences of constructing units to maximise numbers rather than focus on durable quality with consequent maintenance and improvement costs. Increasingly, social housing has come to be targeted at specific groups (homeless, immigrants, the elderly, single people) and to be viewed as welfare or public housing (in the American sense) and in some places it has lost its cultural legitimacy as a means of general housing provision.

Housing costs and affordability. The real cost of housing varies considerably across the EU (as it does, often more so, within countries and across individual cities). Nonetheless, housing costs for low-income groups are increasingly onerous. As a broad simplification, the income distribution has widened and subsidies have shifted from object (bricks and mortar) to subject (personal) subsidies and this shift to demand-side means-tested help significantly increases the requirement for well-designed subsidy mechanisms.

Supply and adjustment. The capacity of any housing system to respond to unmet housing requirements (market demand in the private sector or social need in the non-market sector) is fundamentally a function of the supply system's responsiveness and this depends on the land market and land release planning, the construction industry and the financial system. The market elasticity of supply is known to vary considerably across the EU, for instance, supply adjusts relatively slowly in the UK. In the social sector, the primary constraint remains financial.

EU integration, impacts and policy role. Of course, the EU does not have a housing policy competence but it does have major impacts on the housing system in each member state. By its policies working through into labour markets, product markets and financial services, the EU's programme of integration impacts on local housing systems. However, as Maclennan et al (1998) demonstrate the rigidities of both social housing and national housing markets can impede the transmission mechanism by which the EU economy responds to economic shocks, for instance, by inhibiting the flow of labour factor mobility. The housing-economy relationship is a complex two-way process (Gibb et al 1999).

Homelessness is the most fundamental form of housing system failure. It is difficult to measure accurately and one should distinguish between rooflessness and the lack of permanent accommodation. Social housing has to deal with crisis short run housing and, increasingly, to allocate new lettings to officially homeless households.

Quality of housing. There is considerable diversity in conditions such as space standards and amenities (particularly if one contrasts the north and west with the southern European countries). However, in general, housing conditions have improved through demolition, upgrading and new construction. In many European countries the worst conditions are found in the urban private rented sector, although there are often pockets of extreme poor quality and deprivation on social housing estates on urban peripheries and inner cities.

These themes will reoccur through the discussion in the rest of the paper.

2. EU Models of social housing

This paper is not about social housing per se but rather about its financing and the consequences for provision of different approaches to paying for social housing. Nonetheless, it is useful to distil the main features of social housing in the EU. In this

section, we briefly review the commonality and diversity of the approaches taken to non-market housing within EU member states.

Table 1: *Social Housing in EU States.*

Member state	Tenure share 1980	Tenure share 1990	% share of new build	Typical provider type
<i>Netherlands</i>	34	36	28	HAs
<i>Sweden</i>	32	31	21	HCs
<i>UK</i>	34	26	17	LA HA
<i>Austria</i>	16	21	18	Co-older people LA
<i>Germany</i>		20	15	HAs ¹⁾
<i>Denmark</i>	17	17	38	HAs
<i>France</i>	14	15	19	HLM
<i>Finland</i>		15		Co-ops
<i>Ireland</i>	13	11	9	LA HA
<i>Italy</i>			7	Co-older people LA
<i>Belgium</i>	7	6	2	Societies
<i>Portugal</i>	4	4	-	LA
<i>Spain</i>	0	1	-	Co-op

Key: HA – housing association; HC - housing company; LA - municipal.

Note: 1) Since unification East German social housing is typically municipal. Germany 1990 tenure share figure is quoted by Priemus and Boelhouwer (1999) p.640.

Source: Derived from Maclennan et al, 1997, Table 4, p.17.

Ownership and organisation. Maclennan et al (1997) produce a useful table that sets out the size and organisational structure of EU member state social rented sectors. Table 1, above, is derived from the Maclennan et al report. Although the information is more than 5 years old, it remains indicative and helpful. There are also some missing cells that highlight the difficulty of assembling this type of information. Typical social housing arrangements are captured in the Table, it should be recognised that certain Member States have more than one basic model and the minority variant may be itself distinctive (e.g. municipal housing in Vienna).

Table 1 makes some useful points. First, tenure share is a reasonable guide to building share (Denmark apart). Second, there are three primary models of social housing provision:

- Housing associations (including the French local authority initiated HLMs)
- Municipal housing companies (e.g. Sweden)
- Municipal provision (council housing in the UK but also Vienna).

In addition, there are one or two other models such as co-operatives and arms-length companies of finance organisations, such as in Paris. The UK government is also experimenting with leasing of council housing to private profit-making bodies under detailed long-term contracts (the private finance initiative). Although the UK's council sector has been under attack for two decades, the rate of transfer to housing associations is now such that one can envisage the UK becoming a primarily association led social

housing system within years if not a decade. Thus, in the future, organisationally, the sector within Europe is likely to be dominated by associations, companies and co-operatives. These will largely be decentralised and local but in some countries, this will include large and financially strong organisations with significant State inputs.

The size and structure of these organisations is a relevant concern. Part of the UK strategy has been to develop choice for social tenants and to break up municipal monopolies. Where lax regulation allows non-municipal monopolies to flourish, tenants may be no better off and public resources may not be used most efficiently. Hills (2000) has argued that organisational or managerial scale economies run out at relatively low stock sizes (even if this is not the case with financial economies). The regulatory framework for social housing has an important but finely balanced role to play between seeking out value for public money, protecting tenants interests and enabling choice and competition between social providers. In the UK, the trend towards deregulation of social housing in the 1980s and the first half of the 1990s has moved into reverse with extensive regulation of Registered Social Landlords (RSLs) now a key feature of the new regime. Ironically, this is partly the result of financial deregulation of social housing.

Traditionally (though not in Sweden), social housing allocates stock through a process of prioritised rationing, using waiting lists and according income ceilings or points for administrative measures of housing need (either explicitly or implicitly). This tends to be fairly transparent and depending on accountability mechanisms can be altered if it is unpopular. Some EU states are at different stages of experimentation with market-led or choice-based allocation, primarily in areas where 'need-based' requirements for social housing are low.

The social housing management function, of course, covers a wide range of tasks. Relevant to the financial dimension are issues to do with minimising rent arrears and re-letting empty property in order to minimise rent loss. The failure to keep vacancy rates down on specific estates over time has led to cumulative problems of abandonment and decline. At the same time, employing policies and practices that fund regular and periodic major repairs will sustain the income-generating potential of the stock. This is particularly important when as in the UK, the tenanted social stock is used as collateral to, effectively, re-finance, housing investment on the strength of the equity tied up in the existing stock valuation.

Maclennan et al. (1997, 21-22) generalise the EU social housing experience by arguing that:

- After four decades as the engine of low income housing policies in north and western Europe, social housing investment's share is falling in most countries, though measurable needs are not. Social housing is increasingly absorbing the 'new poor' while failing to address internal problems of condition, letting, rental and other specific policies.
- Housing allowance strategies may be broadly successful in terms of dealing with affordability but they are expensive, they also produce poverty trap problems and potentially increase the inefficient use of the housing stock.
- Priemus and Dieleman (1999, 630-631) highlight the changes faced by European social housing providers in recent years. They emphasise several dimensions of the changing housing finance environment that will be the focus of the remainder of this paper. However, they also comment on the impact that these changes have had on the nature of social housing in Europe. The main changes include:

- Differential impacts on social housing providers depending on whether they are public agencies or non-profit private organisations.
- The shift to personal subsidies, private loans and market rates of interest. This has led to efficiency and effectiveness criteria superseding social justice and bureaucratic norms. Landlords have begun to develop market sensitivity and a capacity for risk and treasury management.
- Rent policy has become more market-oriented in terms of rent levels. There has been less progress in terms of consistent and defensible rent differentials.

These developments are well known in the UK but they appear to be spreading across the EU as well.

3. Funding social housing

Now that we have a sense of the diversity and common features of EU social housing, the paper moves on to look more closely at the suite of financial mechanisms and public interventions open to social housing providers to fund and price affordable housing, as well as to produce revenue streams that will guarantee debt repayment and long term maintenance.

At the highest level of generality, EU social providers (particularly not-for-profit providers) typically raise private sector loans collateralised on the housing stock (although the UK still uses extensive capital grants). The financial basis of the funding will be supervised by local authorities or dedicated public agencies and by the financial supervisors who follow lenders' practices. Unlike the constraints facing mortgage markets, there is evidence of a European-wide market for social housing finance (Maclennan et al 1997, 15).

The classic model of social housing finance in Western Europe involved significant public commitments to underpin, insure, subsidise or provide public loans (or some combination of the above). This meant that providers could repay loans at below market terms or have to fund investment on only a proportion of the capital value (rather than the private sector provider who needs to raise market finance on the entire capital value). The growth of the use of market instruments, buttressed by housing allowances and some subsidy in the form of capital grants (e.g. in the UK), has had many important consequences:

- Opening up the source of social housing funds to the global capital market (and within the context of the Single Currency, to a nascent European market for social housing finance) and to a diverse range of financial instruments.
- Professionalising the voluntary housing sector, arguably to the detriment of tenant participation.
- Increasing the regulator's role in financial management, rent levels and risk management.
- In most EU countries (apart from the UK), housing providers are expected to use their own funds (reserves) to contribute to funding new development. In fact, this self-sourced element can be large: 33 % in Germany (Priemus and Boelhouwer 1999, 641).
- Despite the growth of dependence on private sources of funding, lump sum grants and/or recurring or operational subsidies from the public sector remain important in the UK but also in the Nordic countries, Belgium, the Netherlands, Germany and France. The concepts of mixed funding and risk sharing between the public and private sectors remain important.

- The source of private funding is highly varied including commercial banks and building societies, pension funds, mortgage banks, public savings banks and other specialised housing finance institutions.
- Risk is clearly much more significant under the mixed funding regime in the EU. Various insurance and other forms of guarantee are adopted to manage this enhanced risk. Priemus and Boelhouwer (1999) distinguish systems that rely heavily on the capital market – the Netherlands, Denmark, Germany and Sweden – who use structured systems of guarantees normally with local or central government involvement. The alternative, as in the UK, is to regulate risk by tying public finance (but also regulatory approval) to particular low risk structures of loans.

In the simplest model, long-term bank loans are re-paid by rental income, which must also meet other long term and operational commitments. In the UK, social landlords are expected to make allowance for the cost of management and maintenance and to set aside income for long term repairs (known as the sinking fund). Clearly, one impact of market rates of finance has been higher rents. Private finance now has a keen interest on rental cash flow and now has to balance sufficient rental income (plus risk premia) against the risk of higher arrears and rent loss. Indeed, in the UK, competition between social landlords and pockets of falling demand has led to calls to hold rent increases down – from the lenders.

It is not just rent levels that matter. In the UK, there has been increased cognisance of the nature and impact of the system used to differentiate rents. Traditionally, local authorities had complete discretion to set rent differentials in the council sector and used simple bureaucratic systems. The lack of a value-based comparator (e.g. local tax base) partly explains this but there has been a reluctance to use tenant perceptions of value throughout the social sector. The consequence has often been to create flat rent structures and this may have reduced mobility within the sector and hastened the sell-off of the stock to sitting tenants. Recent policy developments have started to address the issue but in practice the UK retains a patchwork of inconsistent and often baffling rent structures. Rent setting, as much as the affordable level of rents, will become a key feature of future debates within the social rented sector. These issues are not exclusive to the UK. Although Sweden has something approaching a national rent-setting scheme, neither France nor Germany has adopted rent pooling, leading to highly complex rent comparisons.

Despite what was said earlier about the continued use of operational subsidies in some parts of the EU, a common trend has been the evolution of demand-side means-tested housing allowances or subject subsidies (although not everywhere – Spain does not have a general housing allowance). Object subsidies were widely viewed as open-ended commitments, poorly targeted and inefficient. On the other hand, the design of housing allowances is crucial in terms of incentives (for housing mobility and labour market participation) and housing sector impacts. These subsidies, in the UK have become increasingly linked into the general social security system, reflecting the wider labour market and poverty agenda that social housing tends to be associated with.

The shift away from object to subject subsidies has fuelled significant real rent increases across much of Europe (most in the UK and least in Southern European countries where such policies have traditionally been less important) (Maclennan et al 1997, 18). Because of means testing, only benefit dependent tenants can often afford newly developed and more expensive properties. People at the margin of tenures in the UK have been much more likely to choose home ownership. Inevitably, this has helped to polarise housing, deepening labour market disincentives. It has also led to spiralling housing allowance expenditure

(roughly doubling in the Netherlands and in France between 1988 and 1993). Government in the UK has recently succeeded in capping and reducing the HB bill by a combination of measures to hold rents down, allow small increases in housing investment and by tightening eligibility to housing benefit.

Since the late 1980s, the UK has restructured provision of social housing, first by shifting investment towards the non-council sector and more recently to encourage the shifting of council housing to other social providers. Council housing investment counts as public spending in the UK but private finance of social housing does not. The process of 'voluntary transfer' is underpinned by a financial model that uses 100 % private funds to transfer the stock and then supplementary funding to provide catch-up repairs and improvements (investment that otherwise would not occur in the council sector). Stock valuation is based on the tenanted value of the stock and rents are used to repay the loan over 25-30 years. Of course, this is partly underpinned by continuing housing allowances to low income tenants. Between 1988 and 1998, more than 250,000 tenants transferred using this basic model or something similar.

The main constraint on further transfer has been those, normally urban authorities who could not produce a positive stock valuation (i.e. their outstanding debts outweigh the tenanted value). In Scotland, Glasgow council plans to transfer in excess of 75,000 units to an umbrella body before dividing the stock into local housing associations. The Glasgow stock is deeply in debt (more than 55 % of rental income repays debt). Under a new policy, the Scottish Executive have agreed to service any residual debt in order to facilitate the transfer and provide comfort for the lenders of the more than £1 billion required.

Stock transfer is essentially a form of re-finance, of releasing the equity tied up in social housing. Of course, it also meets political objectives (de-municipalisation) but does offer a way of securing new investment in dilapidated social stock that could not otherwise occur in the current public spending climate. To date, there have been no obvious problems of crowding-out or saturation of private lending to the sector. While this may be seen as a peculiarly British response (due to the council housing legacy and the public expenditure conventions) but it may have a wider currency for CEE States. It is also relevant to any situation where housing assets could be used to fund re-investment in the stock within a wider context of fiscal austerity (e.g. on some of the HLM peripheral estates in France).

4. Trends and drivers

The future of the social housing sector in the EU will be a function of the way key exogenous factors influence or 'drive' the demand for social renting. However, before one can isolate and discuss the important drivers in question, they must be located within a sensible framework. In the following discussion, such a framework is set out, stressing the need to analyse social housing within the wider social housing system. In this case, the focus is on an urban or metropolitan housing system.

A Framework for the local housing system

It should not be difficult to see that in order for a driver to make sense as a key determinant within such a framework, the actual relationship between exogenous variables and the housing system itself, indeed the conceptual framework of the housing system itself, needs to be coherent and defensible.

Designed for Scotland's social housing regulator and funder (Scottish Homes), Local Housing Systems Analysis (LHSA) offers a useful, conceptually consistent approach to understanding (and operationalising) these inter-connections. Scottish Homes developed

LHSA in the early 1990s as a planning tool that would assist the direction, monitoring and implementation of strategic planning at sub-national level. The framework assists research and planning staff to monitor trends in the housing system as a whole and to identify imbalances that may require investment and other interventions by agencies in the public and private sectors. Thus, the imbalance derived from the analysis might suggest affordability problems and traditional social housing need, creating a prima facie case for more social housing but, equally, the analysis may suggest that out-migration could be reined in by new family private housing with implications for housing land release.

There is a strong economic undercurrent to the analysis. Figure 1 (see appendix to this paper), derived from the LHSA Best Practice Guide, summarises the analytical framework. Starting from the top left of the diagram, demographics and employment drivers shape household and population forecasts and these constitute the raw housing demand in the LHS. The supply side consists of the existing stock (which has drivers impacting on it as well). Demand and supply combine to produce a crude balance with a deficit or surplus and this is then transferred down to sub-market level. Housing tenure, property attribute mix and location choices are influenced by incomes, preferences, housing costs and quality variables. At this sub-market level, mismatches or imbalances are once again identified and corrective policies can be suggested.

Drivers and trends

With this framework in place, we can now move on to classify the main drivers of housing system change, the key trends and impacts that affect social housing. A simple way to classify these variables is to distinguish demographic factors from economic factors on the demand-side from drivers on the supply-side of the LHS. Other important potential explanatory factors are also isolated.

Demographic factors

In any period, housing demand consists of three main elements: net new household formation, net migration and the moving propensities of existing households (Gibb, Mackay and Meen 2000). Net new household formation is relatively predictable in the short run. Net migration may be a relatively low number and could mask much larger gross migration flows (with correspondingly larger disaggregated effects than across the HMA² as a whole). In any period, housing moves by existing households will dwarf the other two sources of demand.

An important distinction can be made between within-HMA migration and migration from outside of the HMA. While Glasgow has, for a long period, been experiencing suburbanisation from the core city, most of the migration has been a short distance to the suburbs only – remaining within the HMA. This is of course a well-established trend. However, longer distance net migration is arguably a function of key regional economic relationships, in particular, relative house prices and relative employment growth. If the analysis were to look at London and the South East, consideration would also have to take account of international net migration, which is now a key source of new households. These migratory forces have also been powerful housing drivers in countries like Spain and notably Germany.

² The HMA is the functional housing market area – in this case commuting or migration-based boundary encloses the functional housing system based on individual choices, rather than arbitrary formal jurisdictional boundaries.

In the Glasgow model, residential choices for existing households are linked not just to location (city or suburbs) but also to tenure choices (owning or not) and mobility choices. The modelling framework (a nested multinomial choice model) suggested that these choices are not independent of each other and that key variables: age, household type, income, neighbourhood quality and the availability of social housing determine outcomes. This raises two fundamental points. First, demographic variables do not exist in a vacuum but are themselves partly the result of economic relationships. Household formation appears to be weakly endogenous with respect to incomes and housing market variables. Second, the composition of demographic effects is also important.

Households are changing. Smaller average sizes and a changing distribution of ages and household types represent cohort effects and changing social norms. Household size has fallen quicker than urban populations, leading to rising total households even in cities like Glasgow (although at much smaller rates than more successful cities). However, these households are smaller with different housing requirements and interact with HMA migration patterns. Glasgow is importing single person households and exporting two person households. The growth of single person households and more elderly households alongside the increased use of non-residential care packages pushes up the requirement for supported housing.

Demographic trends appear to be becoming more fragmented and arguably less predictable. A more sophisticated series of demands have to be met by the existing stock and the relatively conservative new build sector. The consequences of more varied and disaggregated demand for housing is not well developed conceptually or practically.

Economic factors

Economic conditions play a key part in the trajectory of the local housing system. This is true in terms of national (and global) economic forces as it is of the immediate local economic environment (the local labour market and industrial or economic structure of the HMA). The housing system, through transactions, borrowing, wealth effects and price changes can have a significant impact on spending and the real economy. At the urban scale, the housing sector has potentially an important role in providing the physical infrastructure necessary to attract and retain skilled labour, thus enhancing place competitiveness.

Aggregate demand fluctuations impact on the demand for local goods and services with implications for incomes and employment. If, as is likely, economic growth is skewed towards regions and income groups, then there may be some increased demand and redistribution of housing demand at the local scale. High real interest rates inhibit new house building and may cause affordability problems and related postponement of moves or repairs. Government also uses fiscal policies for macro as well as micro reasons but either reason can impact on the local housing system. However, the major interventions through the tax and benefits systems all affect housing through their modification of disposable income and its distribution across society. National volatility in housing markets, for instance boom-bust cycles in Spain, Sweden and the UK, have not just affected housing and mortgage markets but had repercussions for social housing, too.

The local housing system closely mirrors and follows the industrial structure of the local economy. Economies change over time and this may lead to a changing structure of outputs and/or a changing labour requirement to produce them. The composition of labour demand will change and this will be reflected in housing requirements (Maclennan, et al 1998, 39). Important labour drivers would include the total labour force

and its trend over time, the changing gender composition and the age structure of the workforce. Also of importance is the way in which traditional employment contracts are being eroded –greater flexibility in the labour force relative to the average will have housing tenure and affordability repercussions. A further important point concerns the dispersal and concentration spatially of unemployment (and non-employment). Incomes and earnings have already been identified in determining housing demand. The distribution of income is also important to the HMA and its performance – indeed, it is critical to understanding the accessibility of the private sector.

Housing and land supply

Local and national drivers also influence supply-side variables: the wider economic environment, land supply and housing conditions are all key indicators. House building has to compete with construction and other industries for labour and other inputs. The demand for its product depends on economic circumstances but also availability on the existing second hand housing market (and tastes). However, at a broader scale, new supply is also a function of the economic structure of the industry, its competitiveness and its responsiveness. A key driver for both house building and for the HMA as a whole is land supply. This involves the interaction of an asset market (for residential and other land uses), a housing development market, the spatial distribution of economic activity in a local economy, and the land planning system.

Several other factors can be expected to impact on housing outcomes.

- Housing policies may be national or local in design, objectives and implementation. These policies may alter provision, access rules, the cost of housing to the producer or consumer or alter the basic package of housing rights possessed by the household. Policy changes may be minor, slow to impact on the housing system or act as a major regime change.
- Neighbourhood quality. Choosing a home means choosing a neighbourhood (and, often, abandoning another one). The Glasgow citywide and local studies research suggest that neighbourhood quality is an important housing system driver (Gibb, 2000). The enhanced role of neighbourhood suggests, furthermore, that housing has to be seen in a wider context. Problem estates, characterised by poor housing conditions, high vacancy rates, stigma, concentrations of unemployment and fear of crime are common across different housing systems in the UK, France and Northern Europe.
- Transport/commuting issues. Households (with tenure and mobility decisions) simultaneously choose workplace and housing choices. Breheny (1999) argues that evidence in Southern England suggests that lifestyle choices are increasingly leading to those who can exercise the choice, choosing a home first within a conurbation and adjusting employment rather than housing thereafter. This is interesting not least because it begs questions about the many households who cannot exercise this sort of choice.
- Local government finance. The property tax is a significant variable housing cost entering into the user cost of capital. What is also important, however, is the provision of local services and their impact on quality of life. Further, in under-bounded conurbations (like Glasgow) many service users do not pay for these services. Funding local government is, therefore, intimately linked to migration but also to housing consumption and locational choices.

The main conclusions from the discussion are as follows. First, local and national (global) contextual drivers influence local markets. Second, the contextual analysis has to be located in a coherent framework for understanding both the housing system as a whole but also the way in which contextual factors impact on the ultimate subjects of interest. Third, it became clear that the relationships between the drivers and local housing are not always straightforward and uni-directional, particularly once one disaggregates the analysis. Fourth, drivers operate on both sides of the market or housing system and it is useful to distinguish between direct and indirect contextual variables. Fifth, neighbourhood quality and their non-housing attributes play a key role in determining housing choices by individual households. Sixth, adopting the housing system approach, it is clear that we cannot look at social housing in isolation from other tenures or housing options open to households.

5. Contemporary challenges

In this section, the contemporary challenges confronting social housing in different EU states are highlighted and briefly discussed. At the most basic level, EU nations have to consider the fundamental purpose and role of social housing. In some systems, this is straightforward, with a clear and widely accepted role for non-market housing. However, there is nothing immutable about tenure arrangements. Low-income solutions may be efficiently found in the private sector and this increasingly reflects the preferences and aspirations of citizens. The challenge is to keep social housing provision efficient and offering value for money while achieving its fundamental social objectives.

A related challenge concerns the organisational and supervisory structure for social housing. The governance of social housing, its financial and political accountability have become major issues. How does one insure sound finance and management and adequate competition between providers (or, in other words, prevent monopoly and the absence of choice). In most situations, local government will play a key role, either supervising social landlords or enabling them strategically, for instance through the land market and financial guarantees.

A third challenge stems from the changing client group or demand basis for social housing. Social providers must learn to cope with the differing pressures of international and regional migrants, concentrations of ethnic minority households, more single people and elderly with additional supported needs. While some EU nations have succeeded better than others in maintaining social mix across their tenants, the tenant mix is becoming more polarised everywhere. Social providers have to meet the challenge that this brings (wider social services and linking into social inclusion programmes).

The increasing concentration of disadvantaged households in social housing across the EU also means that social tenants are particularly vulnerable to economic change because of the combination of their socio-economic characteristics and their frequent physical isolation from the labour market. A key future challenge therefore is to develop mechanisms by which social housing and other social agencies can help re-connect people who have suffered from adverse changes to the economic environment (de-industrialisation, etc.).

In Britain and in other parts of the EU, a growing problem is declining demand for social housing, manifested by surplus housing, falling capital values, higher vacancy rates, reduced social mix and de-population. In the UK, policy responses have included demolition and tenure mix redevelopment, intensive housing management initiatives (e.g. more choice-based allocations) and broader regeneration programmes. Area abandonment is a European-wide phenomenon, even if the causes vary. Social providers have to confront

this problem, recognising its importance (for funders as well as landlords) within a context where, in general, public spending on social housing has been de-prioritised. A key issue is repairing the existing stock, which is often dilapidated. Finding innovative ways to improve the stock through re-financing and sinking funds tied to rents will become critical for those EU states with funding and quality problems in their social sectors.

Social provision, housing investment and service delivery have to be fully aware of the wide housing system environment. How well does the private market function, including private renting – how accessible are these sectors for lower income households? How flexible is the local housing system and how can social housing, generally facilitate that flexibility (and how well can individual providers compete)? A major dimension is the increased aspirations of households and increased expectations of their housing provider. In the UK, social tenants want houses rather than flats, safe neighbourhoods and prompt repair services. Sadly, for too many UK social landlords, for too long, competition, regulation and quality could not ensure tenants could have these expectations met. The new environment makes this challenge all the more prominent.

Finally, as has been stressed throughout, the twin issues of rental affordability and the equity of rent differentials have to be addressed. Tenants face fundamental access problems if they cannot afford social rents, even after rent allowance assistance. In the UK, regulation and allowance design are helping to address affordability questions but only through the use of a seriously flawed housing benefit system. We have seen that different EU nations have approached rent differentials, rent pooling and rent schemes in completely different ways. The lack of transparency and the illogicality of the comparisons that this creates will become increasingly untenable both to tenants but also to funders, regulators and anyone with an interest in the rational allocation and pricing of housing.

6. Conclusions: lessons and implications for CEE states

Are there lessons and mistakes made that CEE States can profitably learn from as they consider the future forward development of social housing in their economies? All of the challenges outlined in Section 5 are relevant to greater or lesser extent:

- The future role of social housing within the housing system and society.
- Designing the appropriate organisational and supervisory/regulatory framework.
- Matching housing provision and arrangement to the changing client group demanding social housing.
- How can social housing be best integrated to tackle social and economic inclusion?
- Developing coherent strategies to tackle low demand, surplus housing and countering area abandonment on problem estates.
- How well does social housing provision match up to changing expectations and competition from other sectors?
- How well are the combined issues of rental affordability, housing allowances and the pricing differentials addressed within the social housing sector?

There are several broader lessons for CEE countries that emerge from this review of social housing and its funding in EU countries. First, social housing universally operates within a context of reduced public spending. Working with the private sector to raise funds (and repay them) requires new skills, including risk management. It is essential that the pivotal role of social housing supporting low-income households, engendering social cohesion and tackling housing market failure is retained. With one or two honourable

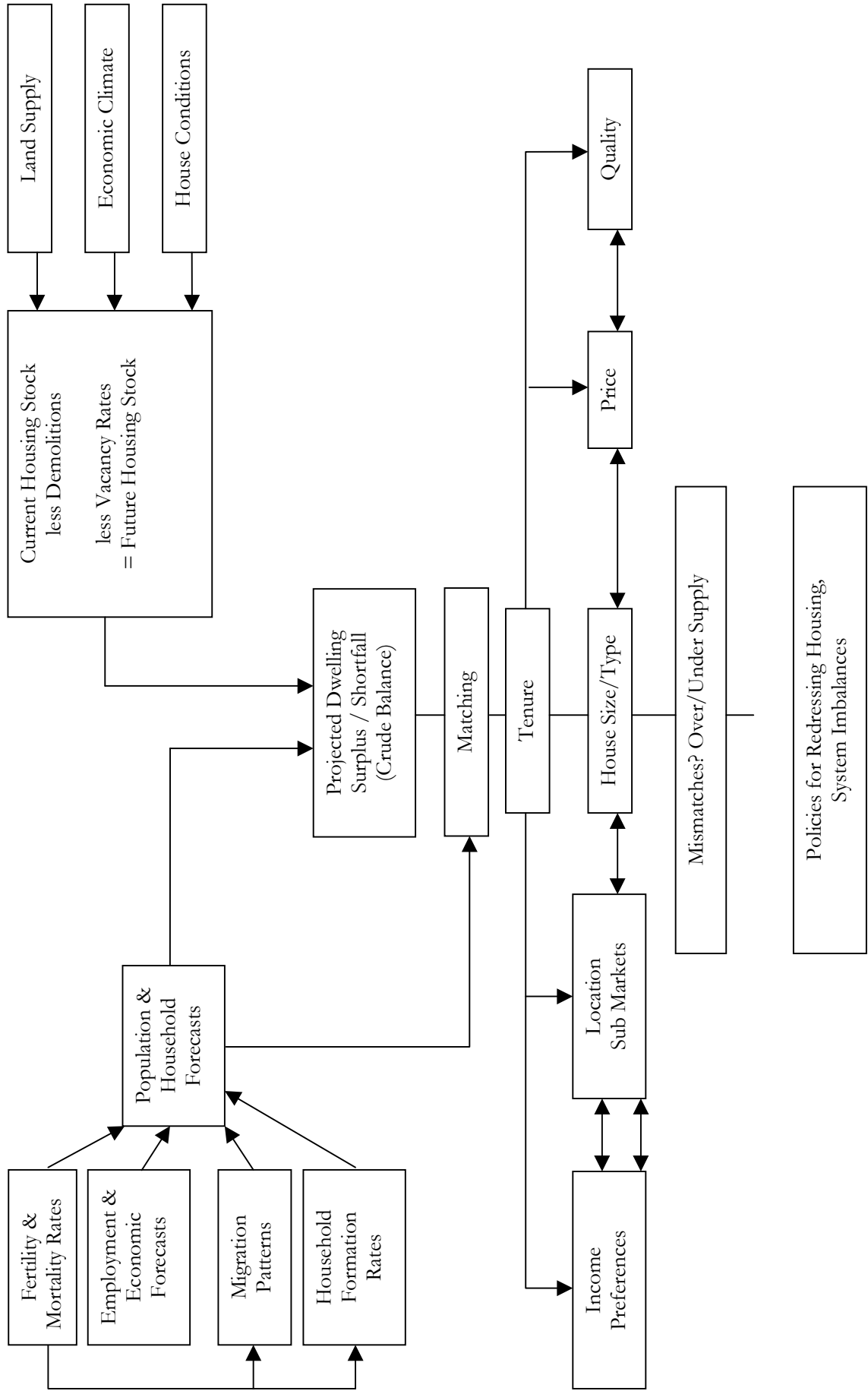
exceptions, reduced social mix and increased polarisation have accompanied the decline of social housing sectors. However, it may be that increasing consumer choice and those higher expectations identified above may help to sustain better quality social housing?

We must also, second, distinguish between developing new social housing (with attendant financing and construction quality issues) with the refinancing of existing stock or at least the funding of major repairs, common to social housing in many parts of Europe. It was noted that UK re-financing had little or no discernible crowding-out effects. This may not be the case in CEE states where calls on limited sources of funds may be greater. Housing quality across social housing estates is a necessary condition for regenerating neighbourhoods but it must be part of holistic strategies that tackle current and potential residents' requirements to make living environments attractive. Sadly, the UK evidence is too often that second generation renewal funding fails to turn around areas – which is why part of the present solution in parts of the UK is a return to demolition.

A third point is that social housing provision has to be designed and implemented in ways that recognise that social housing and its tenants do not exist in a vacuum. Social tenants, actual or potential, choose tenures and locations. Furthermore, a wide range of socio-economic drivers, which operate differentially on cities, regions and nations, influences those choices. Housing planners must recognise these inter-relationships in the same way that risk-averse lenders need to look closely at demand forecasts, cash flow and organisational efficiency.

Finally, subsidy and pricing decisions affect individual and corporate decisions. It took the UK Government more than a decade to recognise and then begin to respond to the perverse incentives the combined housing subsidy and social security system had in creating moral hazard and deep poverty traps. However, 18 years after the introduction of housing benefit, the Government is still unwilling to implement structural change (because of the multiple roles HB now plays). In a similar vein, the approach to risk management and the form of insurance or guarantee employed may or may not be incentive-compatible and sustainable in the longer term. Again, the UK in the early 1990s is instructive when too generous insurance of mortgage lending by general insurers led to massive losses when the housing market collapsed. The state can play a key role underwriting risks and tackling affordability through allowances but these have to be structured efficiently.

Figure 1: *Local Housing System Analytical Framework (derived from the Best Practice Guide, p.11)*



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History and Challenges of "Social" Rental Housing in the Czech Republic

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Abstract: *The paper provides brief description of main housing policy features during communism and of main changes in the sphere of rental housing during the last decade in the Czech Republic. The emphasis is placed on critical evaluation of the current state in the municipal housing, as the "social" character of this kind of housing is seen to be reducing. The differences between market rents in the unregulated private rental sector and controlled rents in municipal housing are shown, and the distribution of profits from rent regulation among lower and higher income household described. The share of lower income households of the total number of households living in municipal rent-controlled housing sector is not significantly higher when compared to other tenures. Indeed it can be observed that a large proportion of higher income households benefit from the low level of rent charged in such properties. In sharp contrast to this younger non-residing households, often on very low incomes, are obliged to live in market rental sector and do not benefit from any state subsidy or long term security of tenure. The deficit of new social housing legislation combined with minimal recent social housing construction exacerbates social tensions on housing market. It is contested that the housing policy measures introduced or being considered by the Czech government currently do not guarantee a positive changes in providing for improved affordability in the rental housing sector. This paper concludes that the envisaged transformation of the rental housing sector has only partially been realised to date, and a summary of recommendations to address this situation in the form of recommended social and housing policies are provided and discussed.*

1. Housing policy during the Communism

Under the Communist regime, housing was subject to tight state control. With the exception of family houses, the entire privately owned housing stock was nationalised; subsequently the creation of new housing co-operatives was allowed. Housing co-operatives were subjected to state administration and all rents were controlled by the state. As a result of the extensive housing construction programme financed from the state budget, the share of state rental flats in the total housing stock grew rapidly. The physical and aesthetic quality of these new flats was however very poor with large concrete housing estates creating a new urban landscape. Four types of housing predominated: state rental flats, rental flats owned by state enterprises, co-operative rental flats and privately owned family houses. The state flats were assigned to applicants from the waiting list; the enterprise flats were assigned to enterprise employees. Tenants of both state and enterprise flats had neither ownership rights or management or maintenance responsibilities. They do however benefit from a "decree" defining their right to occupy their home for an "unlimited time" and, moreover, they had an automatic right to transfer the "decree rights" to their children.

Co-operative housing, which existed even before communism in the Czech Republic, was based on the ideal of "collective investment" of co-operative members. Each citizen could become a member of one of the co-operatives by paying a membership fee. Although the construction of co-operative houses was partially subsidised by the state, residents had to cover a substantial part of construction costs themselves (in some cases by

cash payments, in other cases by unpaid work during the construction of the house). The rents paid by tenants in co-operative flats had to fully cover the maintenance costs and also included the repayment of the state loans. The flats were owned by co-operatives and the members of the co-operative did not have any disposal rights to their co-operative flats (e.g., to "sell" them on the market). The meaning of co-operative housing changed significantly during communism: former small co-operatives were merged into big "housing giants" where the right of co-operative members to participate in the main decisions of management became more or less a formality. Moreover, the influence of the state authorities and regulations grew and the internal rules of housing co-operatives became uniform.

Privately owned (owner occupied) family houses represent the last legal form on the housing market under Communism. Self-construction of family houses was partially supported through cheaper loans and subsidies.

2. Rental housing policy changes during the last decade

The following are considered to be the most significant changes in the field of rental housing between 1990 and 2000:

1. According to the estimate of Terplan (Andrle, Dupal 1999), a private firm conducting housing research and territorial planning, from 1991 (the year of the last census) to 1999 the number of households in "unwanted" co-living (non-residing households) has increased from 170.000 to 280 - 300.000 households (currently 7 - 7,5 % of all Czech households according to data from the 1991 census). The rapid emergence of new private companies and the considerable number of foreigners who entered the housing market (mainly in the most attractive cities) created strong pressure for converting flats into offices. This together with an increasing demand from new families resulted in a sharp increase in housing prices. Prices of privately owned flats and family houses have grown geometrically since 1990, and through 1996 their annual rise was above the general inflation rate. The lack of flats is naturally most severe in big cities, but almost half of the Czech population (46,5 %) lives in cities with the population 10.000 of inhabitants and more. On the other hand, housing construction decreased sharply immediately after 1990: before 1990 between fifty-five and sixty thousand flats were started each year, in 1991 this declined to only 10.899, in 1992 8.429 and in 1993 7.574! There has been a steady growth of housing construction since 1993 (10.964 flats in 1994, 16.548 flats in 1995, 22.680 flats in 1996, and 33.152 flats in 1997). However, this construction is primarily for family houses and ownership flats. The share of rental flats in total housing starts was only 6,1 % in 1997.

2. Many state-owned blocks of flats have been returned to their previous owners or their descendants by restitution laws. The government, however, decided to maintain the system of state regulation of rents in restituted houses. The majority of state flats were transferred from state to municipal ownership (1991). The overwhelming majority of enterprise flats have been sold to private owners along during the process of enterprise privatisation. Thus, private and municipal rental sectors have come into existence, while enterprise owned housing practically ceased to exist and the scope of state owned housing was substantially reduced. The privatization of municipal flats into the ownership of their occupants started from 1994; the privatization is not centrally ruled and co-ordinated by state (opposing to Slovenia or Hungary) and the specific rules are provided by each municipality. In general, the flat is offered for sale for very pleasant price but the scale of privatized stock as well as the level of the price discount vary among different municipalities. In Prague, it was a common case when flats were offered for 1/10 of

market price at the beginning; they are offered for 1/5 of the market price now. Table 1 provides the tenure structure of dwelling units in 1991 (last census): 41 % of dwelling units were owner-occupied, 27 % were state or municipally owned, 21 % were in co-operatives, and 11 % were private rentals. By our estimation, the share of municipal flats decreased to 19 % of the total housing stock and the share of ownership housing rose to 48 % of the total housing stock due to the privatisation of municipal flats.

Table 1: *Structure of the Czech housing stock according to tenure, 1991.*

Type of housing	Number of units (thousands)	Percent of total
Owner-occupied		
In family houses	1 509	40 %
In other buildings	42	2 %
Rental units		
Co-operatives	717	19 %
Municipal and state buildings	1 003	27 %
In single family houses	66	2 %
In private buildings	289	8 %
Other rental units	38	1 %
Other legal reason	42	1 %
Total	3 706	100 %

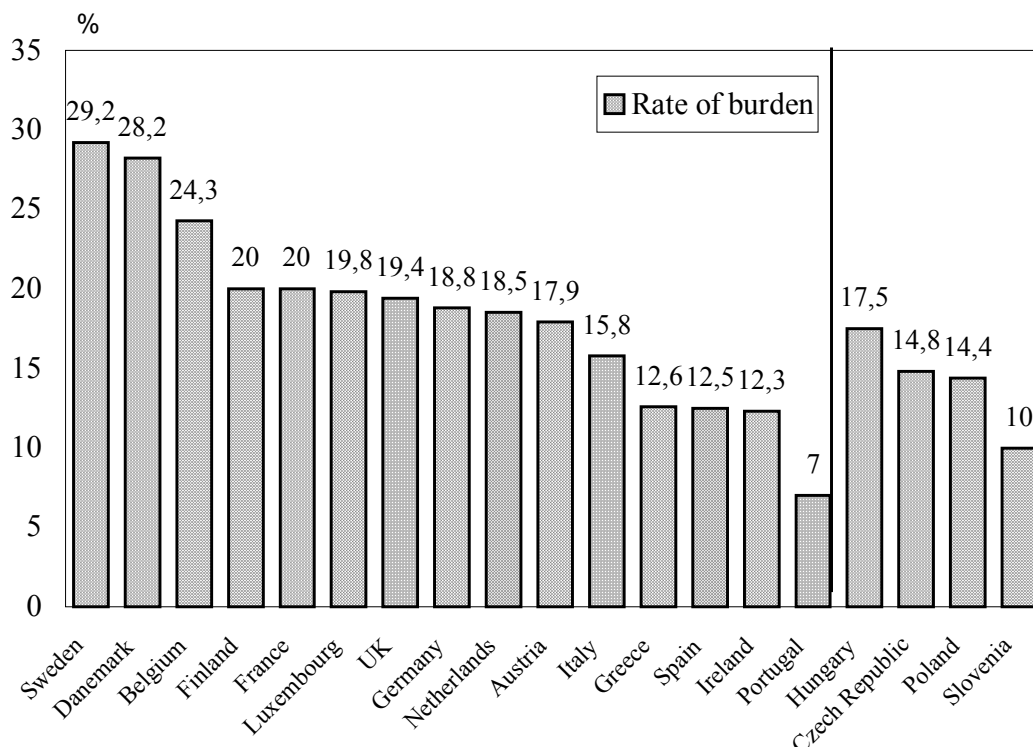
Source: Czech Statistical Office.

3. The law on the transformation of co-operative housing has changed the status of housing co-operatives. The main goal of the Transformation Act was the privatisation of co-operative housing stock into the hands of co-operative members. Up to 1995 they were able to apply for the transfer of their co-operative flats into their ownership and the overwhelming majority of co-operative members took advantage of this. Moreover, members of the co-operatives obtained the right "to sell" their co-operative share on the free market. The co-operatives therefore effectively became a part of the private ownership sector and could no longer be classified as social housing according to the definition mentioned at the beginning of this workshop.

4. Despite these shifts in the ownership structure and many changes in legislation, the basic principles of the rental housing market remain rather similar to those of the communist period. The government decided to maintain the system of state regulation of rents, not only in the municipal flats but also in restituted buildings. Regulated rent for the average rented flat rose relatively rapidly (approximately 600 % between 1990 and 1998 in current prices, 66 per cent in 1990 prices), but it is still several times lower than the market rent in most of the regions of the country and it did not cover reconstruction costs. In 1998 rental costs made up only 5,5 % of total net household income and only 32,1 % of all housing expenditures of the average Czech household (Family Budget Survey 1998). The Figure 1 provides the comparison of rates of housing expenditures burden in the Czech Republic (1996) with the situation in countries of the European Union. For a greater transparency, we have also indicated data, comparable to a certain extent, concerning some countries from the Central and Eastern Europe. The entry about Hungary refers to 1997 (total housing expenditures except households living in market rental sector), the entry

about Poland refers to 1998 (basic housing expenditures¹ except market rental sector), the entry about the Czech Republic refers to 1996 (total housing expenditures except market rental sector), and the entry about Slovenia refers to 1994 (total housing expenditures except market rental sector).

Figure 1: *The rate of burden by total housing expenditures of European households, 1992.*
(percentage of total net income)



Note: Rate of burden = total monthly housing expenditures / total monthly net income * 100.

Source: COCEDHAS 1999, Family Budget Survey 1996, Regional Housing Indicator 1995, Price of Housing in Hungary (MRI 1998), Urząd Mieskalnictwa i Rozwoju Miast 1999.

Due to the deregulation of rents the rate of total housing expenditures burden increased to 17,5 % in 1998 (Family Budget Survey 1998) and the households living in municipal rental flats were characterised by the highest level of rate (19,3 %). The reasons of that are both methodological and factual ones: the concept of imputed rent for house owners is hardly applicable in the Czech environment and the scale of estate market sales (using mortgage loans) was still very low during 1998 (the overwhelming majority of home owners bought or constructed their house or flat during the Communism when the estate prices were completely out of reality);² the expenditures of owners are then generally lower than those living in municipal rental housing. On contrary, the rate of housing expenditures burden is much higher for current home buyers or developers than for households living in municipal (rent regulated) flats; municipal housing thus remained the cheapest alternative among other housing possibilities for households looking for their housing now.

¹ Rent, water and energy charges are included in basic expenditures. The expenditures on repairs and maintenance of investment character, instalment of loans used for construction, reconstruction or purchase of a house or flat are included only in total expenditures.

² This situation changed in 2000 when mortgage loans with the state interest subsidies became very attractive for home buyers.

It should be noted too that the rate of burden for the Czech Republic was in reality lower by several percentage points than it can be elicited from Family Budget Survey (FBS). Reasons for this are following (Lux 2000a):

- Inaccuracy and non-representativeness of FBS's that cannot be completely eliminated by weighting of data file in several fundamental categories;
- Great extent of grey economics in the Czech Republic as well as non-taxed illegal incomes of Czech families, they are estimated to be at the level of 10 – 20 % of declared incomes;
- Underestimation of declared incomes of households is typical for all sociological researches in Czech environment – it is believed that inquiry about income is culturally "unacceptable" (even though this is not intentional underestimation caused by illegal income);
- Inclusion of expenditures on second housing in the calculation of rate of burden; the expenditures on second housing cannot be relevantly separated from the expenditures on primary housing – this is a great disadvantage when working with FBS's and even more so in the Czech environment where second housing is relatively wide-spread.³

The "possession of decree" on a rent regulated flat has remained transferable to family members, exchangeable with some other "owners of the decree" and tradable on the black market. The legislature allowed a market rent if the tenant was not a citizen of the Czech Republic, if the flat had been vacant before renting or if a privately owned family house was rented; according to the estimates market rental sector forms about 3 % of total housing stock currently (2000).

Regulated rents are not well-targeted with respect to household income. Based on data from ISSP 99 research it is possible to demonstrate **that the type of housing that the household lives in is completely independent of total household income.** There are no significant average income differences between households living in municipal, private rental, co-operative or ownership housing (Lux 2000). In other words, the share of rich and poor households is comparable in different types of housing. The influence of "rural" character of ownership housing is certainly indispensable in the Czech environment (the overwhelming majority of village inhabitants with lower incomes live in their own houses). Nevertheless, even if we remove family houses from the analysis and evaluate only the situation for households living in flats, differences among types of housing are not statistically significant.

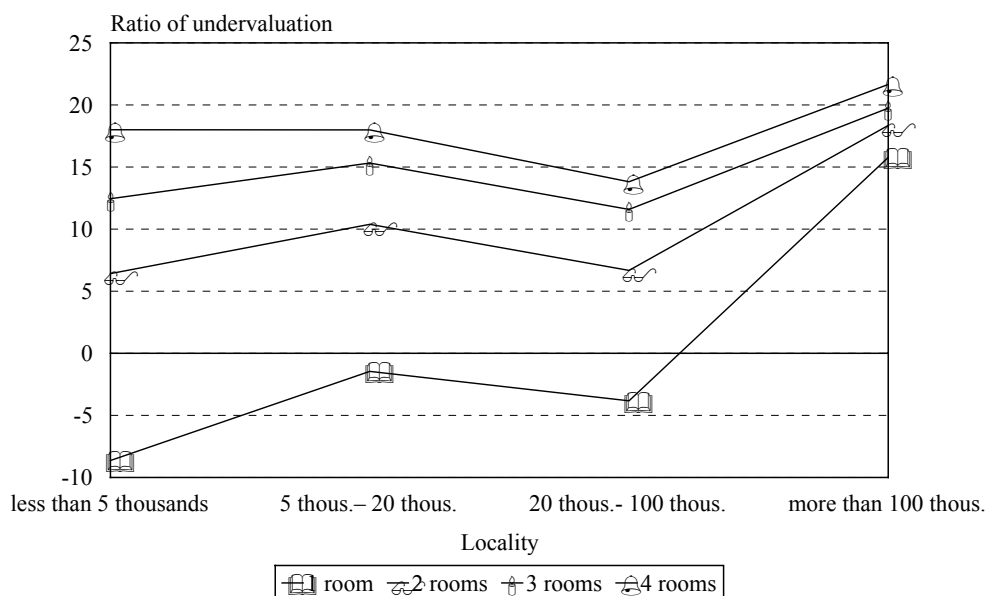
Regression analysis of the *Regional differences in market housing prices 1996 - 97* data set allow us to compute the difference between the market and controlled rent for an average municipal flat (i.e. the average "hidden subsidy" to tenants living in municipal flats): it reached 6.052 CZK in 1996 (half of an average month salary). From comparison of *indexes of undervaluation* of flats⁴, we clearly see that undervaluation of a flat increases with the size of residence (with the exception of cities with 20.000 - 100.000 inhabitants) and the size of

³ According to 1991 census of households, 12,7 % of households indicated they have the secondary residence but according to 1991 census of housing residencies (including cottages not separated from the list of primary housing and flats that are not occupied), this share is very probably higher (about 15 %). In the EU-12 (Eurostat 1999) the average share of households having the secondary residence was 9 % in 1994 with the highest in Spain (16 %).

⁴ The index of undervaluation was constructed as the difference between the market rent price and the controlled rent price divided by the controlled rent price.

the flat. It decreases with the level of unemployment in given region. The average value of index of undervaluation was 11,24 for all municipal flats in the Czech Republic in 1996.

Figure 2: *The index of rent undervaluation of flats in the municipal housing sector, Czech Republic, 1996*



Source: Authors calculations, Family Budget Survey 1996, Regional differences in prices in the market with housing 1996 - 97.

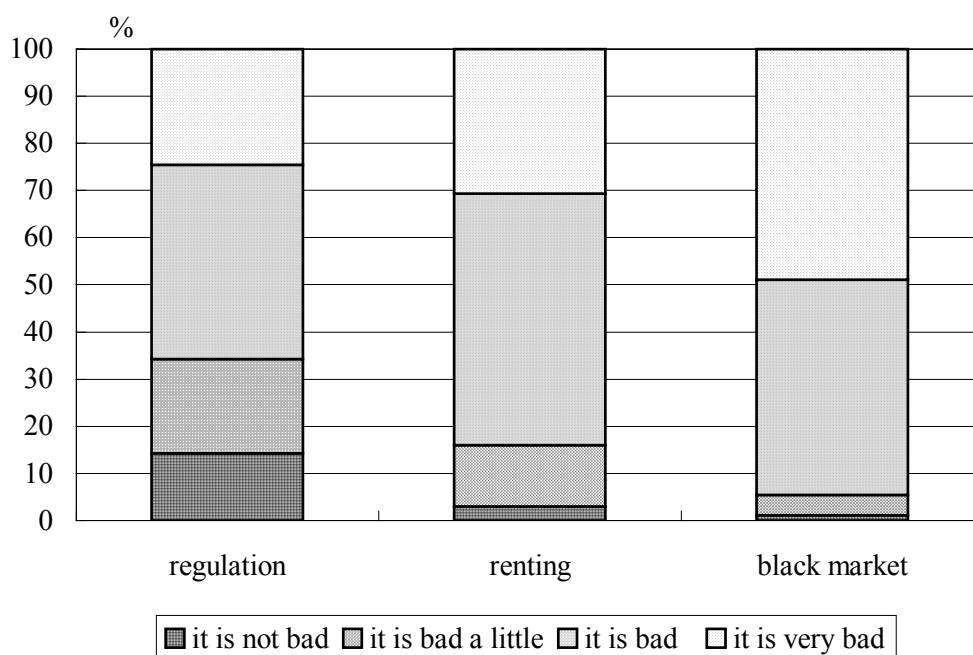
The extreme lines (flats with one and four rooms) are misleading to a certain degree (due to methodological problems); in fact they are somewhat closer to the average value of undervaluation. It can be also expected that the average value of undervaluation is not as high as indicated here, because rent deregulation would increase the supply of flats and the level of market prices could significantly decrease as a result. Because of the total absence of relevant data, we cannot determine exactly what the share of empty flats and the elasticity of the supply and demand curves on the housing market are. The demand for rental housing would be restricted by household income in the case of deregulation as well. In reality, the index of undervaluation could be lower by several percentage points.

What is far more important, for higher income households (households in the two highest quintiles) the index of undervaluation had a value of 11,41 while for lower income households (remaining three quintiles) it was only 11,13 (the average was 11,24). This data reveals that **higher income households profit more from rent regulation in municipal flats. They also live in this sector of housing to a relatively very great extent.**

As in other transforming countries, the reform of housing policy and legislation for rental housing was not a priority in the realisation of an integrated reform of political and economic institutions. On the contrary, the field of rental housing seems to have gained the status of "compensation" for the reduction of living standards resulting from extensive privatisation of former state enterprises, increasing unemployment, liberalisation of prices, and opening of foreign trade. Politicians intentionally postponed reform in the field of rental housing to a later date. This was probably due to fear that liberalisation of rent would become the last drop in the full cup of "sacrifices" connected with other fundamental reform steps.

The non-existence of a transparently defined social sector of housing, and the de facto "non-social" status of municipal flats, have had fatal consequences for non-residing households. The waiting-time for obtaining a municipal flat is dozens of years in Prague, even if the requisite social criteria are fulfilled. Furthermore, housing policy in Prague is decentralised into a large number of city quarters and there is no unified concept for judging social necessity even within the city. The allocation of vacant municipal flats is very sporadic (tenants try to "keep" their flats even if they do not actually use it). It is commonly observed that tenure rights are only given up by occupants in completely unavoidable cases. The situation is incomparably better in areas with high unemployment rate or with poor environmental conditions.

Figure 3: Respondents' attitudes towards black market with housing and occupation of rent controlled flats by higher income households



Complete wording of questions: Housing is a complicated issue these days. Do you think that it is bad or that it is not bad if...

Regulation - rental flat, where the state keeps the rent at a low level (controlled rent), is occupied by a household that has very high incomes if compared with others.

Renting - a user of an assigned municipal or state flat rents this flat out even though he or she knows that it is illegal.

Black market - the state observes, without any respond, when a user of a municipal flat sells his or her user's rights on the black market, even though it is illegal.

Source: Religion 1999

No nation-wide random research, focusing only on the area of housing, has been carried out in the Czech Republic so far. However, various attitudes towards the issue of housing and housing policy have been established within the frame of other examinations. One battery of questions, within the framework of nation-wide representative research *Religion 1999*, dealt with the attitudes of Czech respondents towards the black market with regard to housing, and towards the use of flats with state controlled rent by higher income households. Generally, it can be said that the absolute majority of respondents adopt a sharply negative attitude towards so called "black renting" of municipal flats and towards

"sales of decrees" for assigned municipal flats. Respondents are more tolerant of the issue that a flat with state controlled rent is used by higher income households (Figure 3).

One of the significant factors which assists our understanding the variation of answers is the respondent's age. **One can surmise that the current situation suits younger people more.** This observation applies equally to the responses to all the questions posed as there is a statistically significant relationship between an answer to a given question and respondent's age – analysis reveals that the higher the respondent's age the higher his or her dissatisfaction with a current situation is. We have actually noticed the most significant correlation relationship between respondent's age and the question of regulation; to our surprise this indicates that younger people do not mind as much as more elderly respondents that a large proportion of controlled rental housing stock is used by higher income households.

This situation should have an important impact on the entire future housing policy in the Czech Republic. It is obvious that a significant number of younger households in our big cities make use of black market renting to temporarily meet their housing needs. This could explain why they do not think it too bad (as it is the case with elderly respondents) to rent out these flats. They are afraid that if this chance disappeared it would not be at all possible to find financially acceptable rent. Similarly, it is certain that many young households, especially from smaller towns, make use of existent system of "inheriting" of decrees from grandparents. This is the cheapest way of solving their housing problem. Considering the fact that the incomes of younger households are usually higher than incomes of their parents' households currently, it is obvious and common, that these "new tenants" of municipal flats belong to the group of higher income households.

However, we think that young households would not protest to reform of housing policy in the field of rental housing now. More than 90 % of respondents are against the sale of decrees (answers it is bad and it is really bad) even in the youngest age category (up to 28 years). 74 % of young respondents are against black market renting and 53 % of them are not satisfied with the reality that higher income households live in flats with controlled rent. Compared with younger respondents, elderly ones are usually more critical of current economical and social situation in general. This information should be, however, the important challenge for housing policy makers as there could be big opposition to the future creation of more efficient social housing system from large part of young people who adopted their behaviour to the pathological patterns inherited from communism.

3. Current housing policy measures in the rental housing sector

The current housing allowance system is non-effective in fulfilment of its social goal and does not correspond to models used in the EU. Providing a housing allowance is currently subject to quarterly income tests (social transfers are taken as income as well). This allowance is allocated with no regard to what type of flat the entitled household lives in and to real housing expenditures of the entitled household. As a result, the housing allowance is more a part of poverty relief programs than an effective housing policy measure.

A small number of new rental flats were built by municipalities and private mostly co-op bodies in 90s. The state supports new rental construction with a subsidy of 320.000 CZK for each new flat (about one third of the total construction costs on average) and the subsidy cannot exceed 50 % of the total construction costs. Lower subsidies are offered for reconstruction of vacant municipal flats (200.000 CZK) and for technical infrastructure construction (80.000 CZK). There is a possibility to combine the subsidies for new flat

construction and technical infrastructure construction and to obtain the total of subsidy of 400.000 CZK. **There are no limitations concerning the maximum cost level per m², the maximum area of the dwelling, the income limits used for allocation of flats.** Though the maximum rent price is settled at the level of three multiple of regulated rent price, the additional financial means (50 % of construction costs) are very often paid by future tenants (in fact members of co-operatives) and not by municipalities themselves. Due to that, quite large and comfortable dwellings are sometimes constructed (especially in Prague and Brno) that do not ultimately serve as classical rental flats. They have the character of co-operative or even quasi-ownership dwellings. The allocation is not subject to means testing and in actuality only higher income households can afford to "buy" this rental flat. The programme therefore serves as the financial support of higher income households for construction of comfortable dwellings into their ownership in some cases.

There are two other state programmes supporting the repairs of current housing stock both through the form of the qualified loans and the form of subsidies. The programmes are aimed especially on necessary repairs of estate panel (prefabricated) houses. The subsidy cannot exceed 50 % of the total costs and is offered to all owners of panel houses (municipalities, housing co-operatives, condominium of owners, private owners). In 1999 the Ministry for Regional Development registered 1.257 of applications and due to the financial constraints from state budget the subsidy has been given only to 219 of them. In 2000 only the applicants from 1999 can obtain the subsidy. The state provides the non-interest loans to municipalities for repairs and modernization of housing stock in their location. The municipalities can then offer qualified loans (3 % interest rate) to different owners of dwelling and family houses. The maturity of state loans is 10 years and the amount of the loan depends on the size of the population in particular municipality. In 1999 about 100 municipalities received this state loan. A new programme on the support of regeneration of panel housing estates is being prepared. The subsidies will be provided to municipalities, which have the plan of regeneration of their housing estates and will be provided up to the level of 70 % of all planned costs. The participation of estate inhabitants is claimed. The amount of state expenditures on that programme is, however, not very high for the year of 2001 and it can be expected that the large number of applications will not be able to be accepted.

The reform of rent setting should take place in 2002. Rents should be freely negotiated between the landlord and tenant with restrictions on the maximum level of the rise of the rent in one year. According to the proposal of Ministry for Regional Development the negotiated rent also cannot exceed rents for the flat of the similar standard in the same location. This model is used quite successfully in Germany, France and other European countries. The problem is that due to the slow process of rent deregulation (which is now slower than before 1998) the differences between market and regulated rents in some regions are so large that the adoption of transitional measures will be necessary. In such cases the contractual principle of rent computation will become more or less quasi-contractual, hopefully only temporarily.

Another problem concerns the fact that the rents in the municipal housing stock should also be subject to a new model of rent setting. One cannot expect that municipalities will raise rents too much, even if this is permitted since this would be political suicide for local politicians. The case of Poland where rent prices in municipality flats were substantially deregulated by the state but only partially raised by municipalities confirms our expectation. In fact, the rents in municipal flats will be quasi-regulated by municipalities themselves in the future. Then, if a private landlord wishes to rise the rent in his flats he will not be able to do so as his new rents cannot exceed the average rent for the same kind of flat in its

neighbourhood, including the municipal quasi-regulated housing stock, which is and will be dominant in all regions of the country. The decision of the government not to turn the municipal flats or their part into social housing with newly introduced regulations on allocation and rent setting will lead, in our opinion, to increasing social tensions on the housing market in future.

In May 2000, a law setting up a State Fund for Housing Development was adopted by the Czech Parliament. The sources of the Fund should be used for housing construction, modernisation and repairs. The Fund should cover part of the construction costs or costs of reconstruction and modernisation providing both direct subsidies and preferential loans. It will also be able to use its assets to guarantee the repayment of private capital loans. Both firms and individuals are eligible to apply for financial support. It is envisaged that the initial capital of the Fund should come from income from the privatisation of banks, the disposal of state securities and real estate transfer tax incomes. It is assumed that other subsidies from the state budget will be necessary initially. Executive power is concentrated in the hands of a seven member council; the Minister for Regional Development will be chairman of the council.

Even though the aim of the Fund is to support new rental housing construction, the Fund's activities are not limited to a specific housing sector. Theoretically this could mean that even individuals or firms building flats or houses for ownership could receive financial aid. The extent of the subsidy is not indicated in the law either; there is only the statement that subsidies will be partial. There are no further conditions to be fulfilled by applicants to obtain the subsidies or qualified loans for the reconstruction or construction of the flats and houses. There are again no specifications concerning the construction costs, thermal insulation, and normative area of dwelling or allocation mechanism. No further regulations in the form of national laws are being prepared to narrow the general and very open activities of the Fund. It can be expected that the Fund will never be self-sufficient as the capital flows from the privatisation of banks are non-recurring and there are no requirements for loan repayment guarantees (e.g., mortgage guarantee). As a result the Fund will simply become a useful instrument in the hands of different governments with different housing policies and be largely dependent on the state budget. The lack of a clear conception on rental housing reform led to the creation of a fund that has no duties and no precisely stated goal; its financial resources can be granted to anyone and can cover, theoretically, 99 % of the future investment in the form of direct subsidies or for ownership housing construction!

The law on new housing associations is in the stage of very initial preparation. In the proposal of the Ministry for Regional Development, housing associations should become the developers of new social rental flats in the Czech Republic. Their status would be based on the financial participation of individual members of the association. This means that the legal form of new housing associations would be very close to the co-operative form (if not the same) and future tenants will become co-operative members. The value of their member share will not appreciate over time (though there could be high inflation and housing price changes) and they will not be able "to sell" their co-operative share (in contrast with the situation in current housing co-operatives). The housing associations would operate on a non-profit basis, the municipality or other legal person (five at least) could also become shareholders. The rents will be regulated and the construction costs will be partially covered by a subsidy (!) from the State Fund for Housing Development. As the proposal is in the initial stage of preparation now there is no further precise information, e.g. conditions to be fulfilled to obtain the subsidy or qualified loan, the size of the flat and normative costs per m² of the flat and details on rent regulation.

What is more important is the fact that allocation of new "rental" flats will not be limited by means testing and will not be legally restricted to middle and lower income households. There is a logical implication: if a member of future "housing association co-operative" is forced to pay about 30 % of construction costs from his own resources, then there cannot be any income or other socially defined limitations. The co-operative housing is not, in fact, rental housing. This would lead to lower social mobility and it will surely encourage black market contracts. Very soon there will be pressure from housing association tenants to change the law that would give them greater legal ownership rights, as it was the case in Sweden or more apparently in Norway. This kind of co-operative housing associations is not, in our opinion, socially (since the subsidy can serve even higher income households to obtain luxury flats) acceptable; the aim of constructing of the rental housing for middle and lower income groups will not be fulfilled and this will exacerbate existing social tensions on the rental market. The state authorities defend the co-operative principle by arguing that traditional rental construction would be very expensive and rents in flats of rental housing associations would therefore be unattainable for most of the population. The case of Poland is an argument against this claim.

4. Challenges for the future development of social housing

- ***Large concentration of high rise estates with low income households leading to marginalization of social housing and social exclusion.*** To include the social exclusion into the challenges seems to be a little bit strange now when the large share of high income households occupy the flats in current municipal, very often estate housing stock. However, the experience from the EU countries show us that even if we do not change the fundamental rules of the game, and if the rent prices remain on the same level as they are now (deeply under their market value), the natural process of moving of higher income households out of the panel estate houses will start. It is well known fact that not only in the USA but also in many European countries the problem of social exclusion and concentration of criminality in high rise panel estates took place and the demolition of some buildings has been chosen as the best solution of the problem; even in Sweden where the stress on quality of housing was one of the highest in Europe, about 50.000 units of municipal housing stock are planned to be demolished within 10 years constituting about 6 per cent of the total municipal housing stock. "In contradiction to Social-democratic visions though, in the 1970s several Million Housing areas unfolded into distress and became concentrations of low income households." (Borgegard, Dawidson 2000, 9). It has to be stressed that the processes of social differentiation and segregation has started already in 70s in Great Britain, France and other developed countries when there were no cuts in public housing expenditures! There is more than 62.000 panel houses constituting about 31,5 % of the total housing stock in the Czech Republic (Ministry for Regional Development); in municipalities with population higher than 20.000 the panel houses form 42,5 % of their total housing stock on average. The biggest concentration of this low quality housing is apparent in North Bohemian and North Moravian regions that face relatively large unemployment rates now too. Without supply side subsidies only very little can be changed.
- ***Demographic changes.*** The sharp increase in the share of the older population is expected as in all other developed European countries. "The long term decrease in fertility and increase of the share of older people will intensify the demographic ageing of population..The decrease in number of children is so high that the number of people older than 60 years exceeded the number of children younger than 15 years in 1997 in the Czech Republic...According to the prognosis we can relevantly estimate that the

number of people older than 65 years will increase by more than a half up to the year of 2020." (Pavlík et al 1999, 14-18). We can also estimate that the older population will have fewer sources than economically active population and therefore the demand for affordable rental housing will rise rapidly. Moreover, there is a decrease in average number of people of household from 1990; young people want to create their own household and to live out of their original families much sooner than their parents. This will surely contribute to higher demand for affordable rental housing. The ownership housing is relatively expensive and it is not appropriate for young people willing to be flexible on labour market.

- ***Asylum seekers and immigrants.*** Though the rate of immigration into the Czech Republic is not very high now, it could be expected that growing Czech economy and the membership in the European Union will lead into higher immigration that would also increase the demand for affordable rental housing. "More and more groups of citizens are not sharing the new prosperity. They are without work. They have insufficient education or training. Sometimes they do not even speak the language of the country they live in and they become economically and socially excluded." (Van Velzen 1997, 429).
- ***Unemployment.*** The unemployment rate rose rapidly during the second half of 90s and there are big regional differences. According to the Czech Statistical Office the general unemployment rate was 7,3 % in the Czech Republic 1999, while in the Capital Prague region 3,6 % and in the North Bohemia region 12 % (Czech Statistical Yearbook 2000). The rate of unemployment has its consequences in regional differences in house prices. In the Central Bohemia region house prices were almost four times higher than in Northern Moravia region in 1996. Prague is completely exceptional case. (Heřmanová, Kostelecký 2000). The continuing rigidity on rental market leads into the increase in unemployment regional differences because nobody wants to risk to move from rent regulated flat in region with high unemployment to the market rental flat in region with low unemployment.
- ***European Monetary Union.*** If the Czech Republic wants to join the EMU, very strict conditions on government expenditures, budget deficit, state debt and inflation would have to be fulfilled. This will surely lead to the cuts in public expenditures and these cuts have been primarily introduced in the sphere of housing expenditures in many European countries (Netherlands, Sweden). The future system of supply side subsidies must therefore count with these limitations.

5. Experience from the EU countries (Oxley 2000)

- ***Social housing can be "owned" by a variety of organisations other than the state, local authorities and non-profit housing associations.*** In Germany, social housing has not been linked to ownership and the largest providers of social housing are private landlords (both companies and physical persons).
- ***Social housing does not have to be non-profit housing.*** Until 1990 the non-profit organisations were subject to special legislation in Germany (tax and fee advantages). As a result of bankruptcy of one of main social non-profit landlords the legislation was abolished (besides for housing co-operatives) and associations can behave as private firms. "A large portion has in fact chosen to continue to operate as non-profit enterprises." (Oxley 2000, 23).

- ***Non-profit housing associations can operate in an entrepreneurial manner and apply market principles.*** The development of housing associations from semi-public authorities to private free market players is the most apparent in the Netherlands, Great Britain and Sweden. Housing associations in the Netherlands became fully private companies with social goals after 1995 when the financial ties with central government were cut. "The financial contributions have meanwhile become so low they are now hardly worth bothering with." (Priemus 1999, 2). The associations in Sweden and Great Britain had to learn to react flexibly on changes in housing demand. They must cover still higher and higher share of construction costs from their own sources or to look for the capital on the free market.
- ***Social housing does not have to be rented housing.*** It can be particular form of owner occupation. The examples of Spain (subsidised ownership housing) and Norway (co-operative housing) can be mentioned.
- ***It is social housing allocation policies that crucially define and distinguish social housing from other forms of provisions.*** The crucial factor that distinguishes social housing from other tenures is not more the ownership or non-profit base, but the allocation system.
- ***The sources of finance for new developments and improvements have changed considerably in most European countries.*** The higher share of private capital involvement and only undirect support of public budgets (guarantees) are the main shifts in social housing finance.
- ***In virtually all western European countries the future, purpose, and form of social housing are being questioned.***

6. Prospects and desirable housing policy steps in the Czech Republic

Concerning the current rental housing stock:

1. To deregulate quickly the rents and to introduce a new system of market rent settlement (according to the location and similar standards of flats).

2. To force the municipalities to divide the stock of their flats into three different statutory regimes: the flats that will be privatized, the flats that will be rented for market rent and social housing flats. Only the rent prices from "market" municipal rental flats would be included into new system of market rent settlement.

3. To introduce new central rules on allocation and rent settlement in social housing flats. The rents could be regulated as the percentage of recreational value per square meter (settled for every region every year) as it is the case in Poland. This would introduce the cost principle of rent settlement in social housing used in most European countries. Central law on income ceiling should restrict allocation of flats and, in the case of the Czech Republic, the rent surcharge for higher income households should be introduced.

4. To introduce means tested rent allowance system. The payment of rent allowances should be assured partially from the sources of state budget and partially from the sources of municipal budgets to achieve the highest economic efficiency and lower level of state expenditures. Measures to be considered might include:

- Rent allowances for households living in social flats being covered by the state;
- Rent allowances for households living in "market" municipal flats would be covered by state up to the value of cost rent; if the rent prices exceeds the cost price, the expenditures on allowances would be paid only partially (50 %) from the state budget.

Concerning new social housing stock:

1. To re-establish supply side subsidies in quite new manner in accordance with the trends in the EU countries. One must have a feeling that there are only two very fundamental attitudes towards supply side subsidies in the Czech Republic. The advocates of housing allowances (demand side subsidies) accuse all supply side subsidies that they create unfair competition, have low economic efficiency, and are subject to undue political influence (e.g. allocation of municipal flats among crucial segment of voters), etc. They are very strictly against any kind of state financial support for rental construction and operation often citing the poor example of estate housing constructed under Communism.

On contrary, the advocates of supply side subsidies think of housing markets as being essentially monopolistic with organised private owners waiting for large profits from scarcity rent prices. They often fiercely contend that the state could react the most quickly and most efficiently to new rental housing demand. There is then little common ground between these two parties and both of them expect to win the war at the end.

Discussions between proponents of the economic stances outlined above are very often held on a general theoretical level when economic terms as monopoly, scarcity rent and crowding out effect are used. The reality of the situation cannot be adequately described through theoretical analysis alone as there many particular factors has to be taken into account.

It is a statement of fact that in most EU countries there is an almost universal transfer from "bricks and mortar" subsidies to individual means tested subsidies. It is interesting therefore to observe that the largest cuts in supply side subsidies appeared in countries with the highest share of social housing stock i.e. the Netherlands, UK and Sweden. In countries where the special historical processes (immigration) or economic development created a need for further rental housing construction, the supply side subsidies were re-established, though in much more market orientated form.

The sharp economic growth and the associated increase in house price inflation reducing the financial accessibility of housing in Ireland and unification and high immigration rate in Germany led to the introduction of newly defined supply side subsidies in both countries. The demand for social rental housing is due to the above mentioned challenges and almost no new housing construction much higher in the Czech Republic than in countries like the Netherlands, UK or Sweden. We face the real social problem (as it was the case in Germany) and the re-establishment of supply side subsidies seems to be therefore logical and even necessary.

Concerning the private investments into the sector of rental housing in the Czech Republic, there is no argument that would support the belief that private capital will be willing to flow into the rental construction if rent legislation is changed and rents are freely negotiated on market. The examples of the UK, and partially of the Netherlands and

Sweden, show us that even if the government raises the rents and make rental housing more profitable, private capital does not have to respond to a new market situation. Investors perceive that there are many other more profitable and less risky fields of capital investment. Moreover, it is the case in the country with 40 years long communistic past and where the number of people willing to vote for Communistic party in the next elections is growing. We inherited not only housing estates but also our minds, habits and way of thinking relying on high power of central government.

The combination both supply and demand side subsidies in future Czech housing policy would be better solution than to direct public expenditure to only one of these solutions. The demand side subsidies may influence only higher inflation in rent prices.

2. To introduce new non-profit housing association legislation and not to rely on just one form of co-operative housing; new social landlords in Poland could serve us as the inspirative example. Housing associations should be independent of public authorities; they should behave as real market players with social goals.

3. To specify the conditions under which the State Housing Fund should operate. There should be explicit rules on allocation of resources (based mostly on providing the loans) and the placing conditions on applicants to include addressing the physical construction standards that any new homes should meet (area of dwelling, thermal insulation, maximum costs per square meter, etc.). These resources should be used only for rental construction and by new housing associations or private investors. The municipalities as well as the state are not good and economically effective owners. The initial capital of the Fund should be provided by the state budget but the Fund should be self-sufficient in the future; providing the guarantees and low interest loans (and no grants) should be the base of his financial activity.

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The Dilemmas of Restructuring the Social Rental Sector in Hungary

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Abstract: *The paper outlines the background of the current housing situation by describing the legal and economic changes concerning the housing sector in the last decade. The most dramatic changes could be observed in the social rental sector.*

The "social rental" sector in Hungary is considered to be equal to the municipal rental sector which was about 18-20 % of the total stock before the privatization process started in the beginning of the 90's. By now this share reduced to 5-5,5 % and is still reducing. The management, maintenance and the renovation of this stock makes a big loss for the municipalities as the social rents are still a lot below the market level, they do not cover even the most needed expenses. The municipalities are in the decision of widening and economizing the sector at the same time.

By now the only actor in the social housing field is the municipality; there are no signs of changing the total rental sector towards the most common European models. The paper gives a critical analysis of the latest measures of the national government, which tries to avoid any fundamental changes in the housing sector and especially in the rental sector.

The presentation also tries to outline the difficulties of widening the rental and mainly the social rental sector in Hungary. These difficulties could be rooted in the weakness of the financial sector, the lack of proper organizational forms, the lack of an effective system of housing allowances, etc.

1. Structural changes in the housing sector in Hungary in the last decades

1.1. *The three main tenure forms and their role through the last century in Hungary*

In broad terms the Hungarian development of the housing sector through the XXth century is similar to most of the other European countries: starting from a situation dominated by the private rental sector, at the beginning of the second half of the century the public rental housing sector gained ground, till the 80s, when the growth of the owner-occupied sector speeded up. By the end of the century Hungary belonged to that group of European countries in which owner-occupation dominated to the highest extent.

The similarities in the changes of the share of the main housing forms to the rest of Europe is a bit surprising if taking into account that Hungary was for almost half a century a socialist country. In these countries very special assumptions and conditions on housing policy were introduced (see about the 'East European Housing Model' Hegedüs-Tosics 1995). The two big structural changes of the housing sector were dictated by politics: at the beginning of the socialist period nationalization, while close to the end of it de-nationalization (which meant in Hungary privatisation to the sitting tenants).

1.2. Differences between the countries in changing their housing structure: fast versus slow privatizers

The main form of de-nationalization of housing in the Central and East European countries was privatisation to the sitting tenants. Between 1990 and 1994 in average one third of the public rental stock has been turned into owner occupied housing, compared to which, the only 3 % share of restitution can be considered as of much lower importance. South East European countries were the fastest in this process, with 77 % of their 1990 public rental stock privatized, while in the Central European countries this share was only 12 % (Hegedüs-Mayo-Tosics, 1996). The fastest privatizers in the whole region were Albania (94 %) and Romania (84 %).

Amongst the Central European countries Slovenia (70 %) and Hungary (40 %) were relatively fast privatizers, while Poland, Czech Republic and Slovakia were very slow, their share varied between 2 and 6 % only. By the end of the 1990s the share of the public rental stock dropped to 5,5 % in Hungary, while it was still 18 % in the Czech Republic and 10 % in Slovakia.

Under "normal" circumstances the speed of privatisation depends to a great extent on the sales price. In the transition period this only applied to the case of the former Eastern part of Germany, where only very small discount was given to the tenants and therefore the magnitude of privatised units was very small. In the other Central Eastern European countries huge discounts were introduced (up to 90-95 percent of the market value, in certain cases even 100 percent), in this regard 'give-away' privatisation was introduced. Even so, the differences between the countries in the share of privatised units increased, due to the other regulatory elements of privatisation, especially the willingness of the local authorities to sell their rental stock. The highest level of privatisation was 'achieved' in those countries, which introduced in some form a central regulation forcing local authorities to sell their stock, i.e. where the 'Right to Buy' (RtB) policy was applied.

1.3. The case of Hungary, as one of the fast privatizers

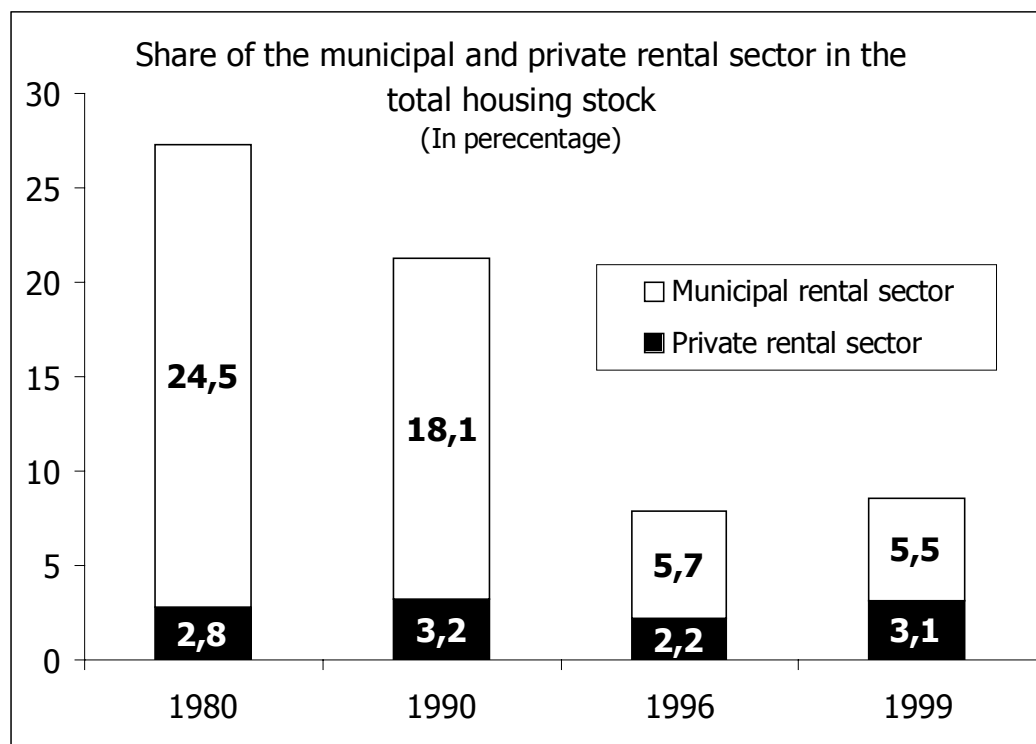
The method and the pace of privatisation was politically determined in Hungary by a government decree of 1993 introducing the compulsory RtB policy. From a housing policy point of view there were more options given to increase the efficiency of the functioning of the public rental stock. The main options for the transition in the rental sector were as follows:

- Give-away privatization;
- Cost-price rents with means-tested housing allowances;
- Splitting up the rental sector into sub-markets.

It is clear that with the latter two methods more public rental housing could have been kept instead of virtually privatise everything; the transformed housing sector could have worked well with substantial public rental sector (Hegedüs - Mark - Struyk - Tosics 1993). In fact, in the 1991-1993 period of 'free choice' for the local governments, all these options were existing on the local level: while many local governments started give-away privatisation, there were some who introduced a differentiated rent system with housing allowances, while other started to make a difference between social and 'non/social' public rental units. In the pace of the political changes, however, all these innovative methods were swept away in Hungary soon and replaced by the more radical, more directly market-oriented solution.

The Right to Buy policy existed for one and a half year period (between April 1994 and November 1995), since then it is again the local government who can decide about privatisation. The results of privatisation are shown in the following Figure 1.

Figure 1: *Share of the municipal and private rental sector in the total housing stock*



Source: Metropolitan Research Institute

The share of the public rental sector decreased from 24,5 % to 5,5 % (showing 11 % in Budapest, 5 % in other cities and 1 % in the villages), and this is not the 'final' figure yet, as in many cities privatisation is still going on, but in a lot lower pace.

1.4. The consequences of privatisation

Quick privatisation, as the most important element of a market-oriented and decentralized housing policy led to substantial changes in the housing sector. In most general terms the previously comprehensive public rental sector changed into a residualised one, in which public rental housing is increasingly the housing form of the poor people.

The residualisation of the public rental sector is a change not unprecedented in Europe, and is, as Kemeny analyses it, the common practice of the anglo-saxon countries (Great Britain, United States, etc.). However, there are two important differences between Hungary - as one of the Central East European countries where residualisation became dominant - and, e.g., Great Britain. In Hungary:

- The share of poor families is much larger than the share of the remaining public rental sector;
- The share of the other types of rental housing (housing associations, private renting) is insignificant.

As a consequence of the broad, and in fact, state supported privatisation, a significant part of the poor families became owners of their housing units. The main problems and contradictions of the present Hungarian situation are coming from this 'forced ownership'.

There is a lack of a coordinated policy for the low-income strata of urban population

Parallel to the disappearance of social rental housing many elements of social policy were decentralised. In the lack of a general housing allowance system, social protection possibilities depend on local policy. The consequences are (especially on those settlements where no or only very limited housing allowances exist):

- Increase in arrear cases both in the rental and in the owner occupied sector;
- Growing spatial segregation (lower income families have to leave the better neighborhoods where condominium costs increase due to renovation);
- Growing inequalities between different parts of big cities (in better areas of the city housing slowly improves due to subsidies and investments from the side of the population, in others deterioration continues).

In the lack of nationwide social protection system, more and more poor families are pushed out by indirect and sometimes direct methods from their neighborhoods to areas where low quality public rental housing still exists, or to villages far away from the city. In both types of these 'target areas' the concentration of the poor increases quickly.

The problem of management, maintenance and renewal of the privatized multi-family owner occupied housing stock

Privatisation leads to individual ownership of pieces of bigger property. This causes special problems in the case of old multi-family housing and also of huge buildings on new housing estates:

- Due to the scattered decision making system it is very difficult to carry through the will of the majority of inhabitants (first legal barriers, later economic barriers);
- The growing differentiation between condominiums, where people co-operate versus those, where they do not or are not able to bear the burdens, reinforces the spatial segregation.

Thus forced privatisation leads – through the listed problems – to increasing problems, on the one hand in the remaining and ghettoising public rental sector, and, on the other hand, in the lower end of the multi-family condominium sector. The responsibility for tackling these problems was transferred from the central to the local level at the beginning of transition. It is only the last year that some changes were introduced in the governments' housing policy.

2. The social rental sector nowadays

The social rental sector considered being the municipal rental sector - although it turns to be less and less social. The share of it is around 5-5,5 % of the total housing stock. The managers of the stock face the classical problem, how to be profitable and socially sensitive at the same time.

The most important efficiency measure concerning this dilemma was that nearly all the companies that managed the municipal stock before the privatization process became business oriented companies: limited companies, joint stock companies. Of course most of the shares, if even not 100 % of them, stayed in municipal ownership. Theoretically this measure would have made it possible to turn the municipal rental system into a more market oriented one. The goal of the transformation of the current municipal rental sector

is naturally not as simple as to take it under market conditions but to define clearly the roles: introduce market orientation into the calculations of the management companies and secure the social aspects throughout certain regulations and subsidy/allowance systems. In reality the current Hungarian system is a complicated mixture of social and market aspects where neither the interests nor the roles could be clarified. What makes this system so complicated:

Political influence of the municipality to set the rent level and select the tenants

The right to select the tenants of the municipal stock is based on two fundamentals. One is the municipal decree on letting the municipally owned units. This decree contains all the 'titles' and criteria to bid for a municipal unit (or not to bid but to join to the waiting list of the units). Most of the units – 80-90 % - are taken into tender in social basis where the criteria are mostly about a certain income limit and a certain amount of assets. The other fundamentum is the right of the municipal committee – mostly the committee on social aspects and housing – to select the tenants from the applicants' list.

The rent level is also set by municipal decrees and in most of the cases it is calculated according to the comfort level of the unit. (The rent level differs from about 4,4 USD/year/m² – full comfort – till 0,6 USD/year/m² – without any comfort.) In practice it means that the annual rent takes about 0,5-1,5 % of the unit value in case of an occupied flat.

This rent level is not appropriate to finance the costs arising in connection with the residential stock, so as the next table shows there is a big loss on the management, maintenance and renovation of the municipal stock even if we consider the non-residential ones. (The non-residential units are let in market rents so they earn significant benefit for the municipalities.) Most of the municipalities would say that the loss on the management and the maintenance of the residential dwellings is financed by the non-residential units. As the aggregate data show the non-residential and the residential units could hardly finance even their own flow costs not mentioning the renovation costs.

Table 1: *The revenues and expenditures concerning the municipal housing stock in Hungary (thousands of USD).*

	1994	1995	1996	1997	1998	1999
Rent revenues of the municipal residential dwellings	12 898	15 140	11 339	22 179	17 491	19 699
Rent revenues of the municipal non-residential stock	32 312	27 258	46 162	49 355	36 671	34 983
Management and maintenance cost of residential and non residential units	45 448	41 292	47 257	72 005	61 217	61 291
Renovation cost of residential and non-residential units	20 308	22 826	21 498	27 154	32 754	23 925

Source: Ministry of Finance

The table shows that there is a need to cover the gap between the costs and the expenditures – this gap is partly covered by the privatization revenues and state normative subsidies. Even if this gap is theoretically covered, the shortage of revenues based on the housing stock results 'undermaintenance' and 'underrenovation' of the stock, so practically a lot less money is spent on the dwellings that would be needed and that is why the stock is deteriorating continuously.

Social composition of the tenants

As a result of the selection process described in the previous chapter and as a result of the privatization process – when the tenants had the right to buy their unit, and everyone who could save some money did so - the social composition of the owners became quite low. (The tenants with higher income are mainly stocked in the inner city municipal buildings that mostly could not be privatized as they were planned to be renovated.)

The most important task of the municipal rental stock is to locate the most needy households, but in order to operate a healthy rental stock there would be a need for a healthy social composition. In reality the stock is so small that even it is not enough to locate the most needy households. (There are tens of thousands of households that are waiting for years to obtain municipal rental units.) It is not possible to implement a market oriented approach too much as the payment capacity of the tenants is very weak.

Deteriorated stock

Table 2: *Division of units in housing-quality-quintile (1= the worst, 5= the best)¹.*

The ownership structure	Division in percentage					Sum
	1.	2.	3.	4.	5.	
Owner occupation	17,4	20,3	19,1	21,0	22,2	91,3
<i>From that</i>						
Privatized	27,9	38,8	23,0	8,0	2,3	16,7
Rented all together	48,0	28,8	15,4	5,7	2,1	8,7
<i>From that</i>						
Municipal rental	52,8	29,4	12,7	4,1	1,0	5,6
Rented form natural person or company	3,3	27,8	20,2	8,5	4,2	3,1
All together	20,6	18,5	21,2	20,0	19,7	100,0

Source: Housing Conditions 1999 (National survey of Central Statistical Office of Hungary).

What the table shows brightly is that the units in the municipal rental sector are far in the worst physical condition. There is an enormous renovation backlog estimated to be about 500 million USD in the municipal housing sector. This backlog is a serious barrier against any market oriented approach as there is an urgent need to invest to the renovation of the buildings in the medium run.

¹ The quintiles were created by using mainly technical characteristics (comfort level, overall quality of the flat, state of the building, date of the latest renovation in flat, in building, walls of the unit, heating system. There were some other parameters, like the neighbourhood type, number of rooms.)

Lack of proper financial support to fulfill social tasks

As we described the rent level in the municipal housing sector is so low that it is obviously not enough for even the management and the maintenance of the municipal housing stock. Even in this case the rent level can not be higher significantly as the social composition of the tenants is quite bad and the increase in the rent level would result more in an increase in the number of arrears than in the increase of revenues. (As we can estimate from the social composition of the tenants there is some slight possibility to increase the revenues coming from the rent as there are some better of households mainly in the inner city municipal buildings, that could probably afford paying more rent, and also there is some slight chance in generating mobility inside the rental sector to optimize the dwelling-consumption of the tenants concerning the size and the comfort level of the units.)

Even in this case the first step towards increasing efficiency should be the implementation of cost based rents that could cover the costs of a housing stock managed by a municipality or municipally owned company. In order to fulfill the social tasks there would be a serious need for a housing allowance system that could support the most needed households in paying their cost based rents. However the housing allowance system is quite poor in Hungary, both concerning the number of eligible households, both the average amount of money that is distributed to one family. There would be a need for a new system of housing allowance that is supported by a lot more money than is allocated for this purpose nowadays. What is really interesting is that this money theoretically exists. The municipalities get so called housing normatives every year (this normative is about 50 million USD/year in national level). This normative should cover the deficit in the management and maintenance of the municipal housing stock – the renovation is basically covered by the privatization revenues - but it should also cover the costs of any kind of housing subsidies like housing allowances, subsidies for the young couples, subsidies for the renovation of condominium dwellings, etc. In reality, the housing normative – and the housing privatization revenue – is mainly used for other municipal purposes like education, health, public services. That is why the solution of subsidizing the municipal housing sector is not to require more housing subsidies but rather to require more subsidies for other public services.

Financial interest of the management companies

Another factor causing problems in the functioning of the public rental stock is the current practice of financing the housing management companies. These companies basically get management fees according to the number of units. That is why the interest of these companies is to enlarge the stock and not to rationalize it. It is also a relevant practice that the municipalities cover the losses of the management companies, but, at the same time they take away the revenues that could be generated in any of the activities.

It is more or less understandable that there is no possibility to get profit on the social housing stock while the rent level is so low, but it is also true that under the present circumstances there are not too many incentives to rationalize the management activity, to contract the maintenance, to increase the efficiency. (Basically there is no competition in the municipal housing management field, the only volunteer is the municipally owned company.)

The structure of finance is so confused in the municipal housing management field, that generally the management companies do not know exactly how much money they used from what resources and for what purposes.

Political influence

Public housing is always a kind of political issue. The decisions on rent setting mechanisms, on the allocation systems, on renovations are always taken by politicians who have their interests in being reelected. It is always more risky to increase the rent level than to generate some loss on the municipal housing stock that would anyhow be compensated by state resources or just by the continuous deterioration of the stock.

3. The current measures of the state

The topic of the rental sector is a hot issue in Hungary nowadays. The government that came into power in 1998 expressed its wish to reform the housing sector - mainly concerning the housing subsidies. The following changes took place:

1. Changing law on housing subsidies (January and July of 2000 and February 2001): The focus is on subsidizing the construction of new dwellings by grants and interest rate subsidies. As a result of the subsidy, the interest on housing loans is 6-7 % instead of market interest rate of 16-21 %. The eligibility criteria for this very favorable loan focuses on the young couples and households with children but only in the case of using the loan to finance new construction. The new form of subsidy was introduced leading to lower-than-the-market interest rates on housing loans too: the 4,5 % subsidy on mortgage bonds that leads to 11-12 % interest rates on housing loans that are financed by mortgage bonds. These types of loans could be used for any kind of housing purposes, except for renovation;
2. New subsidy system for enlarging the municipal rental sector: subsidies are allocated through tender among municipalities to produce new municipal rental units by construction, purchase or conversion. (The amount of state subsidy was about 33 million USD in 2000 and is planned to be about 43 million in 2001);
3. There are more and more discussions going on in central government level about modernizing and enlarging the rental sector.

The analysis of the housing sector showed that there are three basic reasons for the small share of the rental sector. The first element is the financial disadvantages tied to the rental sector, the second is more an ideological/cultural element, and the third is the privatization process itself that dramatically curtailed the public rental sector.

It can clearly be seen from Table 3, that the majority of the state subsidies was related to new construction before July 2000 and the rental sector was quite dispreferred concerning the allocation of state subsidies (the ideology behind the latter fact was that the public rental sector was transferred for free from the central to the local level, thus the local authorities have got substantial assets, from which they should finance the renovation programmes). After July 2000 this main approach did change somewhat, as – although most of the new subsidies were still connected to the construction of new privately owned units - also relevant sum of money was devoted to subsidize municipalities in order to enlarge the municipal rental sector. This was a very important step, taken into account that practically no construction took place in the public rental sector during the last decade.

Table 3: *Different types of state subsidies (X: before July 2000 – and also nowadays, 0: from July 2000).*

Type of the subsidy	Owner occupation		Rental Sector	
	New stock	Existing stock	New stock	Existing stock
Housing construction allowance	X			
VAT refund	X			
Interest rate subsidy	0		0	
Premium from housing savings	X	X		
PIT exemption for loan repayment	X			
Duty reduction	X	X		
Interest rate subsidy for mortgage loans	0	0		
Subsidies for local governments	X	X		X
Housing allowance	X	X	X	X
Employer subsidy	X			
Tax evasion				X
Grant for construction and purchase of municipal rental units			0	
Imputed rent		X		
Implicit rent subsidy				X

Source: Metropolitan Research Institute

3.1. The new subsidy system on enlarging the municipal rental sector

As a result of the legal changes in July 2000 the central government prepared a tendering system to provide grant for the municipalities to construct or purchase municipal units or even convert any buildings that are out of use for residential purposes. The state subsidy was provided up to 70-80 % of the investment costs, depending on the financial status of the municipality.² There were two categories defined: subsidies for social units or for 'cost effective' units. (The number of categories was enlarged in February 2001 with the category of dwellings for the young households and dwellings for the pensioners.) The basic difference between the categories was the requirement of a certain rent level – not less than 2 % of the investment costs annually – in the case of the cost effective units, and the obligation of using the rent revenues for the maintenance and reconstruction of buildings which the revenues came from.

There were several 'fears' on the side of the government that were reflected in the tendering documentation and process:

1. Fear of marketization: The object of the subsidy system was only the municipal sector; no other forms of legal entities were allowed to take part in the tendering process to avoid market failures and corruption. (In 2001, in the case of the second tendering phase the Church was only allowed to take part in case of creating units for pensioners.) The gray economy in Hungary is quite large and there is no right legal framework ensuring that the organization that gets the state subsidy would not 'steal' the money and

² The law on national budget describes categories of municipalities every year depending on their social and economic status.

give up the rental services. For all these reasons the government was – and still is - afraid of opening the state subsidy programme to any other kind of legal entities;

2. Fear of setting impossible requirements: As it was the first year of experience, the main fear was that not enough bids would occur, so the requirements and the evaluation system were very loose. (By now the bids exceeded the financial framework about five times, but the budget for this subsidy system was also enlarged several times, so practically 85-90 % of the applicants were supported.);
3. Fear of being too revolutionary: The state did not want to force the municipalities to rationalize their economy of housing. Most of the subsidies were spent on constructing new social rental units, and no requirements were set up about the rent level, about maintenance level, about the methods the new stock should encourage the mobility within the rental stock, etc.

As a result of this subsidy system there were 2.500 units contracted to be built, purchased or converted in 2000. This is a significant amount – more than 10 % of total annual housing construction in Hungary. Because of this high magnitude, it would have been advisable to prepare an independent evaluation on the effects of the new subsidy system: to observe what kind of units were created, what purposes they were used for, what this subsidy could add to the structural change of the municipal rental sector. Unfortunately such an evaluation was not carried out. Instead, the subsidy system and the tendering process was just repeated in 2001, with an even higher budget of about 43 million USD. This means that about 6.000 municipal rental units will be created – as a result of tenders in 2000 and 2001 - without enforcing any structural changes in the sector.

4. The difficulties of restructuring the social rental sector in Hungary

The new Hungarian subsidy system for the enlargement of the municipal rental sector can be considered as an attempt to react on the over-privatisation process of the last decade. However, the new system has a lot of problematic points, basic assumptions remained unclear, which might lead to much lower efficiency of the new system than expected.

Even if the state - under civil pressure - tries to make some measures to enlarge and modernize the rental sector, the process will not be without difficulties because of several reasons:

1. The task is not only to restructure the sector but to establish it again, as the municipal rental sector was reduced to around 5-6 % of total housing stock by nowadays. According to our demand analysis there would be a need for at least 20 % of the housing stock to be in the rental sector, mainly for social purposes but also for enforcing mobility concerning different territories and different age structure. The most effective way to enlarge the public rental sector would be the construction of new dwellings; reprivatization would be impossible and buying units would result in a very dispersed structure of the stock. The basic problem is that housing construction is expensive and the demand for new rental dwellings would occur from that layers of the society that would never invest in new construction because of the lack of financial resources –the socially weak and young households. The huge gap between the demand and the supply must be filled in some way; either by a housing allowance system, either by construction subsidies;³

³ There are considerations that claim: no social rental units should be built while the number of households is somewhat less than the number of units, and the social need should be met by purchase

2. A modern rental sector can hardly function without an effective housing allowance system. The housing allowance system is by definition based on the revenues of the households. Unfortunately, as a result of the gray economy, relevant part of the incomes – 20-30 % - are illegal in Hungary. The central government and even the municipalities are afraid of enlarging the current housing allowance system into a wider range of society as the efficiency of the system could be questioned from this side;
3. There is a lack of stable legal and organizational framework for financing and subsidizing the newly emerging rental sector. There is no guarantee about the payment capacity of the tenants (in the lack of central policy and regulation on public rents and housing allowances). There are no good solutions for the case of rent arrears: foreclosure is uncertain, there are no alternative solutions to move the debtor to a smaller, lower cost accommodation. Under these uncertain circumstances there are no banks that would give construction loans to build rental housing, only if the proposed layer is the upper class;
4. It is very difficult to adjust the existing, low-rent, low-quality municipal sector to a new non-profit one. As we emphasized, the current municipal sector should fulfill both social and market oriented tasks. To achieve that, housing companies should behave like market institutions and the legal and subsidy framework should secure the social aspects. What would be needed the most to achieve this goal is a central government concept to develop incentives and the legal background.
5. Last, but not least, it would be important to clarify theoretically, what type of rental sector is wanted:
 - A unified rental sector in which means-tested housing allowances ensure the fulfillment of social aspects, or
 - A rental sector comprising of sub-sectors:
 - Social rental sector (low rents, strictly controlled entry);
 - Non-profit rental sector (cost covering rent, controlled entry);
 - Free market rental sector.

To sum up: besides the important experiments with new subsidy systems, it would be important to clarify in theoretical terms, how the social and the non-profit aims should be articulated, and what the link between basic sub-categories of public rental housing should be. A central government concept would be necessary about the changes in the Hungarian rental housing policy, on the basis of which local governments could create their own comprehensive local housing policies.

When designing such a government concept, the successful elements of the Polish TBS system could serve as starting ideas for the non-profit, mainly new construction oriented part of the rental sector.

There is, of course, a difference between Poland with a shortage of 2 million flats and Hungary with no shortage in general but huge shortage of affordable flats, which should be taken into account when using the Polish case.

However, besides a new non-profit rental sector, there is also a need for a new model for the social sector (partly consisting from the lower end of the owner occupied sector!), as in Hungary the municipal rental sector shrank to a much smaller size than in Poland.

of used flats. Even if it is not effective from a management point of view to buy dwellings in mixed-ownership-type or totally private buildings it is possible that no other solutions would occur as a result of the serious shortage of resources.

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Social Housing in Polish Housing System

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Abstract: *Financial and legal assumptions, the process of implementation and data on the stock of the contemporary social housing system in Poland are reported in the paper in details. Social housing programme, established in 1995, is recognised as one of the most prosperous element of the housing provision system in Poland. There are several contextual conditions for this, for example:*

- *withdrawn of the state from subsidising other sectors, previously noted as "affordable",*
- *strong market orientation of the social housing model – "good quality for reasonable price" policy,*
- *limited demand for market, owner-occupied high standard new construction caused by the poor economic condition of the households,*
- *continuous political governmental support for the programme,*
- *interrelations between social housing programme and self-government's obligations in the field of housing.*

Social housing in the current state policy is seen as a mid-term programme facilitating an increase of housing affordability for medium and lower income households during transitional phase of economic reforms. In a longer perspective social housing associations will continue investments and might compete with other institutions as managers of the stock.

1. Housing policy and situation in Poland in the period of economic transition.

Population in Poland amounted to 38.654 million inhabitants at the end of 1999, with 61,8 % of them living in urban areas¹. Increase of the population rate was for the first time negative in 1999 and equalled -0,03.

Housing is one of the most important social and economic problems in Poland. Dwellings are not within the range of people due to relatively high prices. The existing housing stock represents – on the average – both low quality and inadequate usable floor area standards. Currently 304,3 (1999) dwellings fall to every one thousand of the population. High statistical housing deficit is persistent – housing needs' forecast amounts to 1,5 – 2,5 million dwellings in Poland 1999. Repairs gap is systematically increasing. It is estimated that capital outlays on housing stock repairs come up to only 1/3 of the necessary expenditures. Out of total 12 million dwellings, as many as 7,5 million need repairs, including 1,3 million (over 10 %) in need for general repairs. Repairs gap is estimated at the level of 36 billion PLN². Tables 1 - 3 present basic information on housing situation in Poland.

¹ The country has implemented a three-stepped administrative division with 16 voivodships (regions), 373 district authorities and 2489 local governments. Polish urban network consists of 875 towns, including 19 with over 200 thousand inhabitants, 81 with population between 50 – 200 thousand inhabitants and 785 small towns, not exceeding 50 thousand inhabitants. Housing issues fall within the authority of basic local government entities – "gminas". The unemployment rate as at end 1999 was 13 % and 15 % at the end of 2000. Gross Domestic Product (GDP) in Poland amounted to 611,6 billion PLN, per person – 15.822 PLN (1999). GDP has been continually increasing since 1994.

² Forecast by the Housing Research Institute (IGM) 1999.

Table 1: *Housing stock and housing conditions of population.*

Specification	1980	1990	1997	1998	1999
Dwellings in thousands	9.793,70	11.022,10	11.612,80	11.687,70	11.763,30
Average number of dwellings per 1000 persons	274,10	288,70	300,40	302,30	304,30
Average number of person per 1 dwelling	3,55	3,40	3,26	3,24	3,22
Average number of rooms per dwelling	3,19	3,41	3,46	3,47	3,47
Average usable floor area in m ²	54,50	59,60	60,90	61,10	61,30
Average usable floor area in m ² per person	15,40	17,50	18,60	18,80	19,00
% of dwellings equipped with water-supply in urban areas	87,80	95,30	97,10	97,40	97,60
% of dwellings equipped with water-supply in rural areas	37,40	67,60	79,40	80,80	82,10

Source: "Gospodarka mieszkaniowa w 1999 r." (Housing economy in 1999), GUS, Warszawa, 2000.

Table 2- 3: *Average usable floor are and dwellings completed in years 1991 - 1999.*

Specification	Average usable floor area per dwelling in m ²				
	1991-1995 ¹⁾	1996	1997	1998	1999
Total	80,1	92,1	93,3	93,4	87,3
Private individual	119,1	126,5	130,5	132,6	130,7
Co-operative	61,1	61,0	60,6	61,4	58,3
Municipal	51,6	44,6	49,3	49,1	46,7
Company	60,8	65,9	68,2	58,3	64,8
For sales or rent	68,9	61,2	60,4	58,9	59,7
Social rental	-	50,0	51,8	51,6	50,4

Specification	Dwellings completed in thousands				
	1991-1995 ¹⁾	1996	1997	1998	1999
Total	101,4	62,1	73,7	80,6	82,0
Private individual	35,3	30,1	35,1	37,3	33,3
Co-operative	55,3	24,6	28,1	28,1	27,5
Municipal	3,5	3,0	3,7	3,4	2,7
Company	6,2	1,6	1,4	1,4	1,0
For sales or rent	1,6	2,7	5,1	9,0	14,2
Social rental	-	0,1	0,3	1,4	3,4

Note: 1) Average per annum.

Source: "Mały rocznik statystyczny 1999" (Small Statistical Yearbook 1999), GUS, 2000, "Budownictwo – wyniki działalności w 1999 roku" (Construction – effects of activity in 1999), GUS, 2000.

With the first phase of the reforms in the beginning of 90s, due to transitional changes in the Polish economy, housing acquired foundations for rational operations within the market economy. Reformatory measures undertaken at that time consisted, among others, of:

- Repeal of credit privileges putting banks under obligation to provide special conditions for housing lending;
- Communalization of estate, including the transfer of state-owned housing stock to local governments (gminas);
- Introduction of a new tax system, including personal income tax enabling to use instruments stimulating housing investments through construction and repairs tax benefits;
- Introduction of state budget assistance system for individuals and institutions having to repay the so called old housing loans (initially in the form of direct financing of interests, later in the form of an interim buyout of part of loan interests).

Fundamental reforms in housing economy itself were implemented between the years 1994 – 1997. A number of legal regulations passed at that time in order to improve the management of the existing housing stock, to stimulate the development of housing investment projects and to create real estate market. More important solutions include:

- Settlement of separate ownership of dwellings and joint ownership of real estate, the rule of real maintenance cost cover, legal establishment of housing condominiums;
- Partial reform of a co-operative sector enabling housing co-operatives to build rental dwellings and giving both corporate entities and individuals more opportunities to acquire co-operative ownership of dwellings;
- Reform of rent, introducing the rules of Civil Code into rent agreements, system of regulated rent levels for municipal housing stock, authority of local governments pertaining to decisions on regulated rent levels within the maximum scope regulated by law;
- Introduction of the system of housing allowances financed by local governments (with certain participation of state subsidy);
- Rationalisation of spatial planning and construction procedures;
- Introduction of systemic solutions, falling within the range of state housing payments overdue, through state system of assistance with repayment of "old" housing loans and regulating guarantee premium payments (system stimulator for housing savings purposes from before 1989);
- Implementation of contractual (building) saving system;
- Introduction of legal framework for social rental housing, designation of rules for financing of social housing construction from the public funds and setting up the National Housing Fund;
- Regulation of real estate management and turnover, ensuring advantageous ground for obtaining and offering real estate for housing purposes by local authorities;
- Introduction of special financial institutions into the banking system – mortgage banks and rules for issuing mortgage bonds.

These regulatory activities within whole housing sector and improvement of country's economic condition have not yet resulted in the expected growth of housing effectiveness. The dynamics of both the new construction and repairs / modernisation processes is weaker than it was expected by housing policy makers or independent research institutes.

These processes, stimulated by new legal and financial regulations, are long term and the volume of expenditures strictly determines their effects. Meanwhile, both the condition of public funds in Poland and the volume of credit capital resources in the Polish banking system will not allow for granting significant quantitative measure to housing priorities. Political acceptance of housing as a priority remains still, with the exception of social rental housing, just a formal political declaration.

We can expect the cumulation of housing needs in the nearest future, which will be caused by the demographic structure and termination of technical durability of many old buildings. By the year 2005 the generation of demographic pick from eighties will set up families notifying demand for new dwellings (between 1995-2005 the number of population in the age group between 20-29 will grow by 1.2 million). Additionally, at the same time the number of population in the age group above 45 will also grow and only some of young people can count on inheriting dwellings after older generation.

One of main reasons of these difficulties lies in very low dwelling accessibility, which is measured by the relation of disposable income level to the price of one square metre of usable floor area. Despite the growth in the real income levels of the population, accessibility of dwellings is not growing because the dynamics of the increase in the average price of one m² has been – since 1996 – higher than the dynamics of growth in disposable income levels. At the end of 1999 – according to the Housing and Urban Development Office – the average monthly income constituted only around 66 % of the price of one m² of usable floor area. In 1998 that ratio had been over 70 %. Due to the growth in income inequality, the number of low-income earners, who cannot afford buying dwellings, grows. Within the middle-income groups the problem of price barriers, pertaining to the prices on both the primary and secondary markets as well as to the price of a loan, does not systematically soften. The question of dwelling accessibility is diversified both geographically and socially.

2. Social rental housing programme

Organisational and financial rules for social rental housing in Poland are regulated by the Act on Some Forms of Support for Housing Construction passed in 1995³. The Act sets out:

- Investor entities – specific Commercial Code companies – Social Housing Associations (TBS) and housing co-operatives;
- Preferential loan system - preferential interest rate, repayment model allowing repayments from rental cash flows, possibility of grant amounting to 10 % total investment cost;
- Financial institution extending loans for this type of construction - the National Housing Fund (KFM) operating within the National Economy Bank (BGK);
- Rules for social dwellings availability – only on the basis of rent agreement, retaining the maximum income level and the condition of not holding other titles to dwellings;
- The subject of loan extension and the investment cost ceiling – living part of buildings, cost not exceeding the average costs in the region;
- Technical and quality parameters – energy efficiency, preservation of minimum usable areas (dependent on the number of tenants), full equipment of bathroom and kitchen.

³ Journal of Laws No. 133/654/1995, with subsequent amendments.

The only investors within this housing sector are Social Housing Associations (TBS) and housing co-operatives. TBS operate under the rules of Commercial Code and have to maintain proper management of their own assets (they are independent on the public authorities). However, their activity is governed by a few specific rules resulting from the above mentioned Act:

- TBS have the opportunity to finance housing construction from preferential loans provided by KFM;
- When financing construction from KFM, they must meet definite technical and quality standards whereas dwellings may be rented to authorised persons exclusively;
- The maximum rent in TBS dwelling is regulated and it is equal to 4 % of replacement unit value per annum;
- TBS have the opportunity to benefit from income tax exemption on condition that their returns are allocated to statutory activities;
- TBS should co-operate with local authorities.

The co-operatives that want to apply for preferential loans from KFM must have legacies in their statutes guaranteeing maintenance of tenant or rental status of dwellings built from these resources. Local authorities also can access KFM if they undertake construction of technical infrastructure accompanying housing construction.

National Economy Bank (BGK), which is a host bank for the KFM, is a state-owned bank falling under the authority of the Minister of Treasury. BGK is operating on the basis of Banking Law and the Statute. BGK operations comprise typical commercial activities and tasks commissioned by the State. The latter consist in financing government policy initiatives that support reforms and development of the chosen economy sectors.

The goal of KFM is to implement the plans set out in Government housing policy and the development of housing construction sector. The support for the development of social rental housing with affordable rent levels forms one of the priorities of its activity.

Loans for both construction and modernisation of rental dwellings are extended on conditions set out in the Act and its executive regulations. These conditions comprise the following:

- Credit amount cannot exceed 70 % of the investment project costs; the maximum construction costs per square meter are limited by the regional construction cost index notified by voivods;
- Interest rate equals to 50 % of the National Bank of Poland's rediscount rate;
- Repayments are made on a monthly basis with the minimum repayment set at the level of 0,24 % of initial loan amount. Repayments are indexed on a quarterly basis by 85 % change in the construction cost ratio announced by the Main Statistical Office (GUS);
- Grace period of up to 30 months starting from the date of first loan tranche release;
- Loan repayment period depends on both indices' trends (interest rate and repayment index ratio) and is foreseen to last around 30 years.

Borrowers must be creditworthy and must assure loan repayments from the rent receipts. The necessary legal security of the loan comprises mortgage over loan-financed real estate, insurance policy cession and charge over rental receipts. The supplementary legal regulations lay down detailed requirements pertaining to the standard of dwellings constructed, their size and investment project period.

Within the initial phase of the programme operations, both the number of companies and demand for preferential loans were moderate. New housing associations, apart from Commercial Code procedures, had to undergo a registration process with the Housing and Urban Development Office in order to control the compliance of TBS's statute with the Act. Decision-making processes are rather time consuming, especially when local authorities are most often the only or significant shareholders of the TBS. Preparing of technical and financial documentation for housing projects that have to comply with the requirements of the Act with regard to the standard of constructed dwellings and the investment cost can sometimes constitute a very time consuming process. At the end of June 2000, the number of registered TBS amounted to 261 and at least one KFM loan had been extended to 109 of them.

The dynamics of KFM loan financing with regards to housing investment projects (new housing construction, modernisation or adaptation of the existing stock) is shown in the Table 3 below.

Table 3: *KFM credit activity in the years 1996 – 2000.*

	1996	1997	1998	1999	2000
Number of loans extended and signed	2	17	83	164	247
Value of loans extended in million PLN	1,3	40,3	209,6	484,3	778,1
Number of dwellings constructed	46	973	3.100	6.819	10.126

Source: BGK data.

Currently, over 400 new credit applications have been submitted to the Bank. Most of applications cover housing projects prepared in accordance with the requirements of the Bank – technical documentation has been prepared, construction permits obtained and in many cases the construction started while using own developer funds. The year 2001 forecast assumes extension of KFM loans allowing construction of 10.000 dwellings (total of 882 million PLN).

In connection with the common problem of lack of full infrastructure equipment of housing construction areas, KFM funds can also be used for the purposes of financing the technical infrastructure accompanying housing construction. These loans are also extended on convenient conditions:

- Loan amount cannot exceed 70 % of the investment cost;
- Interest rate is set at the level of 50 % of NBP's rediscount rate;
- Credit repayments are made on a monthly basis and cover the repayment of proceeds and interests;
- Grace period for proceeds repayment is up to 30 months and is calculated from the date of first loan tranche release;
- Repayment period of up to 7 years.

The most common type of loan security taken is local government's handbill in that case. In practice these loans are extended over the period of up to 7 months and grace period finishes after one month of investment termination date. Since the beginning of KFM operations 39 infrastructure loans totalling to 50.4 million PLN have been extended. Up to the end of 1999 these loans were made available exclusively for the purposes of territorial development of social housing areas. However, the scope for this type of loans

has been extended; local authorities are now able to apply for KFM funds to finance construction of technical infrastructure accompanying all forms of new housing.

While implementing state housing policy assumptions, KFM is also obliged to ensure the liquidity of contractual (building) savings system. Between 1997 and 1998 KFM also serviced a special line for flood relief credits and loans, extended for the purposes of liquidating the results of dramatic floods in the south-west and southern parts of Poland. Additionally a number of heat efficiency loans were extended in 1998.

Loans are extended for financing of up to 70 % of investment projects. Covering the share of 25 % of total investment cost from developer own sources is a precondition for loan extension. The investment costs comprise: land purchase and infrastructure development, construction and installation of technical fittings, equipment and other objects connected with residential buildings as well as specialised construction investor's activities.

Rent levels for social rental housing is set at the level not exceeding 4 % of replacement value. Such rent levels allow for maintenance of housing stock and for repayment of preferential loans from rental cash flows. Rents are set at the level close to maximum admissible level and the average structure of disbursements made from rental inflows is the following: loan repayment – 60 %, current maintenance of housing stock – 30 %, repairs fund – 6 %, provision – 4 %.

Dwellings built with the contribution of KFM finance must meet high technical parameters, including heat efficiency coefficient – these requirements are higher than normal requirements set out by law. The application of heat efficiency technologies helps to minimise other housing expenditures. Thanks to that, total housing costs of households living in these dwellings does not significantly exceed the corresponding costs of households from municipal housing sector. Relevant regulations also control standards of dwellings furnishing – dwellings have to be equipped with all necessary fittings and bits of equipment. There exists also the normative standard for a dwelling size. Investors are thus not in position to build very small sized apartments. The average size of apartment built in this sector during 1999 was 50,4 m².

The demand for KFM financed loans is continually growing. According to the results of questionnaire research made among TBS in 1999, their loan financing needs will be at the level of around 3.170 million PLN annually at the end of 2003. These needs are connected with construction and adaptation of nearly 48 thousands of dwellings. This forecast is consistent with Bank's appraisal made for the purpose of formulating own development strategy and with the assessment of Housing and Urban Development Office. The Office forecast the construction of around 40 thousand social rental apartments at that time.

3. Social rental housing in state housing policy

The social housing construction programme has high priority and a stable position in Polish housing policy. According to the "Assumptions for State Housing Policy between the years 1999 – 2003"⁴, the Government's housing development plans were set out in 12 detailed programmes. One of them is called "The Support for Social Housing Construction Programme" and is assuming the continuity of state support for social rental housing through budget funds allocations to the KFM. It is expected that KFM will be

⁴ "Assumptions for State Housing Policy in the years 1999 – 2003", Housing and Urban Development Office Information Bulletin, Warsaw, July 1999.

granted the total amount of 1.430 million PLN under this scheme in the period of 2000 – 2003⁵.

In the report on housing initiatives delivered to the Parliament, the Polish Government confirmed that social rental housing constitutes “a final destination model for satisfying housing needs of households that due to some insufficient disposable income reasons cannot aspire to housing ownership”⁶. Government programmes assess that households qualifying for housing ownership are the households belonging by their total income to the seventh and higher deciles of households’ income distribution. This signifies that 60 % of households cannot afford to buy their own partment.

The social rental housing construction programme has become of interest especially for local authorities. The system allows them to meet the majority of their obligations with no necessity to involve significant amounts of own funds. It gives them the possibility to transfer funds and estates (most often land) to Social Housing Associations and to equip them with sufficient means to finance its initial investment activities. Access to KFM preferential loans is also a good offer for other investors.

Within the context of state housing policy it is necessary to consider main opportunities for the development of social rental housing and most immanent threats to this programme. The basic question concerns the existence of sufficient loan sources. Political declarations do not have to imply real level of the Fund’s supply, with regards to both the amounts of funds and to the regularity of alimentation. Legal regulations on money transfer from state budget to KFM, prepared in 1995, requires cosmetic changes in order to increase the effectiveness of the system. In the nearest future, financial institutions’ loans and BGK bond issues will constitute the basic source of the Fund’s money supply. This will not relieve the state from the duty of allocating an annual budgetary supply to the Fund that will have to be further assigned to at least supplement the cost of private capital from the capital markets.

The second paradoxical threat to the social rental housing programme is the lack of competition within the environment of housing programmes supported by public means. Due to tax reforms renunciation in Poland, other projects were also suspended. It was assumed that budget saving coming from the abolition of tax exemptions for individuals investing in their own apartments or in the construction of rental housing would be further invested in some other forms of support for housing development. Some programmes of interest subsidies to loans on modernisation of flats were taken into account together with interest subsidies on loans for young households assigned for the purchase of their first apartment.

Within the common reception of the current situation there exists a conviction that only KFM loans constitute instrument of government housing policy. If this is so, then it is easy to conclude that KFM should extend financing of all of basic housing needs. It is very close to accept another monoculture.

In practice it is easy to notice the tendencies to weigh down TBS with many tasks pertaining to the scope of local housing policy. In so far as TBS’s position within the local policy is marked by the complex housing strategy, retaining the rules for both the political

⁵ State budget for 2001 provides 204 million PLN for NHF, which is less than planned in the policy document.

⁶ “Information on the activities undertaken and planned by the Government of Poland within the scope of State housing policy”, Housing and Urban Development Office Information Bulletin, Warsaw, January 2001.

and executive competencies division and preserving sufficient conditions for competition among investors and housing managers, then taking over of additional tasks by TBS, including the management of other entrusted resources, would seem justified. However, especially in small towns, one can observe the tendency of transferring whole housing field to TBS. With no huge housing resources within the municipal sector it is difficult to retain conditions for any rational competition.

One of the important functions of social rental housing is to increase the professional mobility of population. The possibility of moving and renting apartments based on standard, normalised rules would constitute a significant facilitation. However, this function of social rental housing cannot really be attained in practice by the current system. TBS, especially those founded by the local authorities, give priorities to access of dwellings to their own inhabitants. And the problem of uninhabited homes, facing the huge housing deficit, is not a threat for any of TBS.

4. Geography of social housing and its tenant structure

Information on KFM borrowers enables to easily specify spatial spread of investments in the field of social rental housing. Three factors seem to play a vital role for future diffusion, which social rental housing continues to be on Polish housing market. These comprise:

- Personal factor;
- The size of municipal stock within local government territory;
- Urbanisation and the model for satisfying housing needs.

The personal factor notion denominates that the leaders of initially founded TBS were those people who took an active part in consultation and training activities. If they were the managers of local authorities, they stimulated the foundation of TBS in their own local areas. Many participants of initial discussions (including training courses organised by the French HLM association) were leading TBS and brought about submissions of first credit applications. There is certainly no reason for defining any type of spatial regularity in this matter.

The second factor can be easily justified. Local authorities with large burden of municipal housing stock and bearing direct responsibility for the housing standards of the major part of local population have become more dynamic with looking for new solutions in the field of housing. This regularity signifies that the social rental housing programme has been best developed in the Western part of the country.

The initial implementations of social housing construction schemes took place in small and medium sized towns. Only three big cities (Poznań, Szczecin, Białystok) joined the programme from its very beginning. The rest of borrowers of the years 1996 – 1998 represent smaller locations, most often from Wielkopolska, Pomerania and Lower Silesia.

The third of listed elements "strengthens" the asymmetry of social housing construction spread. Lower level of urbanisation is connected with more traditional model of solving housing problems, based upon residential construction and real estate ownership (the Eastern parts of the country). Especially during the initial three years of the system operations, towns located in the East and centre of the country were not significantly represented among TBS investors.

Since 1999, compared to substantial growth in the number of borrowers, the above-presented regularities have become less transparent. Firstly, biggest cities have started their domination within the structure of initiated investments and extended loans volumes. Secondly, many other towns joined local authorities involved in social housing

programmes. It is also difficult to draw a conclusion which local authorities were the most advanced with the regard to social housing development and utilisation of preferential loans.

Tenants of social rental housing stock have to comply with certain legal criteria with regard to their disposable income and lack of access to other dwellings⁷. Social rental housing programme utilises the legal limit of maximum disposable income level for the household that wants to obtain social flat. This limit equals to the average monthly salary in subsequent voivodships, announced by the President of the Main Statistical Office for the Ist and IIIrd quarters of each year, especially for the purposes of this Act. Total household income is compared to the value of the average wage, increased by a certain percentage in accordance to the number of respective households members.

In practice, tenants in social rental dwellings most often gain incomes under the maximum ceiling. Based on the representative sample research made by BGK (credit applications pertaining to agreements concluded at the end of 1999 and in 2000) it has become apparent that the minimum income per person in future tenants' households range from 12,31 to 53,85 % of the ceiling. Maximum incomes of future tenants were more diversified within the analysed sample and ranged a little above 80 % of the possible limit on the average.

In practice, social rental housing constructions is addressed to families having fixed and sure incomes ranging around the country's average income (or a little below the average). Two main family types are liable to rent dwellings within social rental sector: "middle aged marriages with children, employed in the public sector" and "young marriages on their way to well-being". They could access dwellings through third-party participation i.e. special form of sponsorship for housing construction through sharing part of the cost in exchange for the right to choose a particular tenant, certainly on the condition that this person complies with the requirements set out by the law.

5. Selected conclusions

While discussing social rental housing problems from the European perspective, it would be possible to assume that Poland has introduced unique solutions. At the beginning of the transitional period, economists and politicians lead together to renouncement of all forms of preferences in financing co-operative sector initiatives, traditionally associated with the social sector. We experienced a short period, in which from one day to the next in 1992 the uninhabited housing stock sprang out. In the meantime of economic reforms' implementation in Poland, social housing sector, though starting to operate from a very low ceiling, proves the highest growth dynamics.

It is necessary to look at the position of social sector in the context of all housing conditions. In Poland, with its huge share of low standard municipal housing stock, the

⁷ Art. 30, par. 1 of the Act on Some Forms of Support for Housing Construction reads: "The Association retains the right to rent apartment to individuals exclusively if: 1) on individual and other notified members of the household, on the day of succession of a dwelling, do not possess any other legal titles to real estate in the same location, 2) household's disposable income as at the day of concluding rental agreement, does not exceed 1,3 of the average monthly salary in a given voivodship, notified before the day of rent agreement conclusion more than: a) by 20 % in one person household, b) by 80 % in two member households, c) by further 40 % for any additional member of the household in households consisting of greater number of members."

construction of cheap and modest dwellings was not justified. It was assumed that inhabitants should have an opportunity to get promoted and to improve their conditions through transfer to newly built, full standard social apartments with relatively high rent levels (when compared to low rents within the municipal housing stock).

The experience from Poland signifies the necessity to accept few rules. Firstly, the model of the social sector within which the preferences on the effectiveness and sustainability of the system are applied, may serve to solve housing problems of social groups belonging to the average income groups in the region. Families with lowest disposable incomes are left outside the system and these households should be offered other housing solutions. Secondly, the onefold housing support programme does not constitute a solution for the country with low quality of housing conditions. It is not the case currently that Poland faces growth in social problems caused by deterioration of some housing districts. It is necessary, however, to work out the programmes for repairs and revitalisation of many housing units. Finally, due to assuming the formula of direct supply of the National Housing Fund from the state budget, it is necessary to have in mind very high political sensitivity of the programme.

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Role of Social Housing Associations in Supporting Transformation of the Polish Economy

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1. Expectations of local communities (towns and communes)

In order to define precisely local communities' expectations connected with application of the Act on Selected Forms of Support for the Housing Construction (Polish Official Journal no 133, pos. 654, from 27.11.1995), it is necessary to mention some figures, which show conditions of housing resources. In Poland, we can only focus on figures concerning the housing stock belonging to towns or managed by towns or their agencies. There is more than 11 million of flats in Poland; more than 7 million of them in towns. In towns, more than two millions of flats belong to the municipalities, more than 1,5 million belongs to institutions and 1,1 million of flats are private. By our estimation, one million of flats is in bad technical condition and require renovation works. More than 300.000 of flats should be demolished.

It is therefore evident that costs of renovation works would be very high because of a bad technical state of resources. So it is needed to work out which housing resources are worth to be renovated and kept in good conditions and which ones deserve a demolition. The town responsible for paying housing allowances plays here an important role.

In 1992 municipal authorities covered 4,6 billions zlotys of exploitation and renovation costs. We estimate that needs in this matter are three times as high. Then it is obvious that local authorities look for solutions, which will allow them to relieve their budgets of these expenditures; particularly in case when they are proprietors or administrators of housing resources. The local authorities look for, among other things, new technologies of housing construction which are cheaper from exploitation point of view in order to eliminate flats in a bad technical state and flats requiring big outlays covered in consequence by their tenants or by housing allowances paid by towns to tenants.

Local authorities expect that the social housing notion means flats with moderate rents for all those families which cannot afford to buy or build their own flat. I hope that the essential objectives of the construction of flats with moderate rents are following:

- Families with low incomes could have access to flats;
- The best utilisation of small financial resources which are at the disposal of the state or municipalities;
- The possibility of migration of families searching the employment and better life conditions;
- The decrease in social frustrations caused by a shortage of flats.

The local authorities could accept a new formula of the social housing giving a chance of optimal use of public funds being at their disposal or at the disposal of the National

Housing Fund. The local authorities expect that their control over funds let them keep moderate rents in order to increase families' access to them.

The local authorities expect that social housing programme will bind housing building contractors (as well as constructors of the necessary infrastructure) to build good quality houses which are cheap from the exploitation point of view. According to local authorities this will be of great importance for attaining of low level of other housing expenditures covered by tenants.

Local authorities hope that the formula of social housing is a philosophy of housing sources management, which consists among others of a care of the housing sources as well as of their tenants by proprietors. For example despite of legal regulations enabling a cancellation of the rent contract, the financial difficulties of the tenant not noticed on time will get in trouble not only the tenant but also the proprietor. This is a big social problem, which will oblige the tenant and the proprietor to look for solutions.

2. What is the form of the social tenement housing in Poland?

The Act on Some Forms of Supporting the Housing Construction provides the rules for the creation of Social Housing Associations in the form of limited liabilities companies, joint stock companies, and co-operatives of legal entities. A participation of other interested subjects can be also expected, and it does happen so: housing co-operatives, construction enterprises, producers of construction materials, enterprises of the communal economy, local banks, as well as enterprises which would like to solve housing problems of their employees in such a way. In the case of communal economy enterprises or other budgetary units of municipalities managing the communal housing resources, there is a perceivable trend to transform them into Social Housing Associations.

A basic goal of activities of Social Housing Associations includes the construction of rental houses and their maintenance. Social Housing Associations, as companies created on the basis of the Commercial Code, are able to generate profit but solely only from activities listed in the aforementioned Act, namely:

- Renting of utility premises within resources of Social Housing Associations;
- Conductance of other activities connected with housing (ownership housing constructions or the construction of accompanying infrastructure).

However, they have to allocate the profit from these activities to their statutory purpose (rental housing construction or maintenance of current rental stock). They will obtain the privilege of an income tax exemption in that case.

Social Housing Associations operate in the area that is determined by their founders in agreements and by their internal rules. The provision may allow them to connect housing resources from several communes (municipalities) in one organism to ensure the most efficient management of these resources, lowering costs of their maintenance and consequently of the rents.

The Associations are legally independent units. Their union with local authorities (communes) takes place by means of Supervisory Boards: the representatives of communes can, by virtue of the law, be members of Supervisory Boards of the Associations. Local authorities have, moreover, a decisive influence upon the shaping of the level of rents in the housing stock of the Associations. The Act states that the Communal Board (Municipal Council) determines the rent price per one m² of the utility area on the basis of the proposal and calculation presented by an association. It is obvious that there is necessary a close co-operation between an association and municipality, especially in the

field of determining the location for the construction of flats, obtaining developed plots, preparation and realization of investment undertakings of the construction of flats, and finally, the determination of lists of persons entitled to receive the flats, as well as housing subsidies if there is such a necessity.

The National Housing Fund is the main source of financial means for the Social Housing Associations, pursuant to their basic goal of the construction of rental flats. According to the aforementioned Act, the Fund grants a long-term credit bearing low interest up to 70 % of construction costs. The remaining 30 % of the cost of the undertaking are to be collected by the Association itself. A great majority of them include the land, its development, financial means transferred from municipalities in the form of subventions. There also appear financial means of other legal subjects, or even individual persons who are interested in the construction of rental flats. The aforementioned Act states that the volume of the credit, its interest, and repayment conditions shall be determined by the agreement concluded with National Economy Bank (Bank Gospodarstwa Krajowego) servicing the National Housing Fund. The Association applying for a credit from the National Housing Fund has to carry out a precise calculation of construction costs and determine conditions of the credit repayment in the credit application.

Since the rent paid by the tenants will be the dominant source of financial means, the Society must determine the period of the repayment within the deadlines provided in the Act, i.e., the monthly volume of the repaid credit, as well as the interest on the received credit. Both these factors, i.e., the volume of the monthly credit repayments and its interest, form basic elements of the rent. It should be stressed that in order to conduct a precise calculation of the costs, the Association has to refer the costs to potential financial capabilities of future tenants, i.e., the capacity to pay the rent and other fees connected with the usage of the flats (including the media, waste disposal, and others). The basic rule will result from the calculation: "if you do not know for whom you are constructing the house, do not construct it." It means that there has to be determined the future tenant and especially his financial capabilities. Thus, the Association must have an excellent knowledge on financial capacities of future tenants.

Since, according to the Act, the tenant can be encumbered with a bail, it will turn out proper to determine the future tenant, even his name and surname, or even sign an initial agreement with him. When the Associations knows the future tenant, it should calculate the theoretical construction costs per square meter of the utility area. The aforementioned Act states that the annual rent cannot exceed 4 % of the replacement value of the flat. Adopting the index of housing expenditure burden amounting to not more than 20 - 25 % of the household budget, and adopting the aforementioned value of 4 % of the replacement value of the flat, there can be calculated the exact costs of square meter of the utility area strictly connected with financial possibilities of the future tenant.

The receipt of the credit by the Society from the National Housing Fund at the amount of not more than 70 % of costs of the undertaking presented in the credit offer, as it has been stressed above, is connected with certain requirements connected with the creditor's reliability, as well as technical requirements. The debtor's reliability includes, among others, the above-presented account of the undertaking's cost with a connection with the financial capabilities of future tenants. Technical requirements that have to be met by the debtor include requirements referring to minimal areas of the flats, an intensity of their initial settling, as well as the technical equipment, and detailed requirements concerning the consumption of the thermal energy for the heating of the rooms and the supply of hot

utility water. Thermal requirements and conditions referring to the installation of the central hot utility water are provided in the Resolution of the Minister of Spatial Economy and Construction on detailed rules and mode of granting credits and loans from the National Housing Fund (pursuant to art. 21 of the aforementioned Act of October 26th, 1995, on Selected Forms of Supporting for Housing Construction and an amendment of some acts).

An introduction of these requirements was necessary to reduce the energy housing expenditures of tenants. The expenditures on heating form around 60 % of total housing expenditures of an average Polish household. A decrease in the expenditures with a relatively small increase in the rents (an increase of the costs per one square meter due to increasing inputs into the thermal insulation) increases an accessibility of the flats of the Associations for families with a worse financial situation and reduces the encumbrance of the municipality with expenditures connected with potential housing allowances.

The President of the Housing and Municipal Development Office (pursuant to the valid Act) approves articles of all Social Housing Associations. Table 1 shows the development in the number of Social Housing Associations:

Table 1: *The number of Social Housing Associations in individual periods:*

Date of summary	All SHA	SHA with approved agreements or articles - number of SHA
January 2 nd , 1997	55	28
April 15 th , 1997	74	38
November 28 th , 1997	122	64
May 6 th , 1998	158	97
October 8 th , 1998	178	135
December 9 th , 1998	181	148
February 5 th , 1999	184	157
April 6 th , 1999	194	164
August 15 th , 1999	219	179
January 7 th , 2000	257	218
October 2 nd 2000	329	276

Source: Data of the Housing and Municipal Development Office

The number of registered Social Housing Associations according to the size of residence seems to be interesting too (Table 2).

Table 2: *The structure of Social Housing Associations according to the size of residence*

Number of the population	No. of Social Housing Associations	% participation in the total number of Social Housing Associations
Less than 10,000	11	5 %
10,000 – 20,000	29	13 %
20,000 – 30,000	34	15 %
30,000 – 40,000	22	10 %
40,000 – 50,000	18	8 %
50,000 – 100,000	31	14 %
100,000 – 200,000	21	10 %
200,000 – 300,000	14	7 %
Over 300,000	38	18 %
Total	218	100 %

Source: Data of the Housing and Municipal Development Office and GUS.

The majority of Social Housing Associations operates in cities which are seats of authorities of the rural regions (46 %), and then in the so-called municipal regions (32 %). The Societies also function in other towns (17 %).

3. The role of the National Polish Forum of Social Housing Associations

The shaping of the Social Housing Associations requires an analysis of conditions of its establishment and operation. Such analyses are made by specialists from the National Polish Forum of Social Housing Associations. The tests are made according to specified directional goal of functioning of Social Housing Associations in the city, commune, region, as a potential housing policy maker in the future.

Directional purposes of activities of the Social Housing Associations shall include:

- The administrator of current housing resources;
- Investor constructing new rental housing resources;
- Developer, substitutive investor, producer of construction materials.

The performed research of the National Polish Forum is aimed to:

- Collect necessary data constituting the scope of information necessary to determine the housing policy for the given housing resource as an element of the future housing policy of the city, commune, region;
- Determine the part of rental housing that will be administered by the Social Housing Association.

The Reality and Prospects of Social Housing in the Central Europe - Case Slovakia

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1. Introduction

Last decade brought substantial changes in the housing sector in all the countries in transition. Their scope and impact have never been experienced before in Europe. Before the year 1990 the State was involved significantly in the housing development, particularly by a direct system of financing the state rental housing sector, grants and long term low interest rate loans for co-operative sector, and by the long term low interest loans for individual family houses construction. That was reflected in the number of dwellings completed. More than 1,3 million dwellings were built from 1948 to 1990, with the highest intensity in housing construction reported over the period 1971 – 1980 (more than 40.000 flats completed yearly). Over the period 1981-1990, the private housing construction share was 31,1 %, the public rental 19,4 %, and cooperative housing construction 47,5 % .

After 1989 the transition of national economy from a centrally planned into a market economy influenced also the housing construction. In the period 1991-2000, a decline in the housing construction was visible, when only 109,417 dwellings were completed.

According to Census data from 1991, the Slovak Republic reported 307 permanently occupied dwellings per 1,000 inhabitants. In the year 2000 the share was expected to reach 320 permanently occupied dwellings per 1,000 inhabitants. This indicator is comparable with the level of transitional countries, but far behind the countries of European Union with the indicator reaching from 400 to 460 dwellings per 1,000 inhabitants.

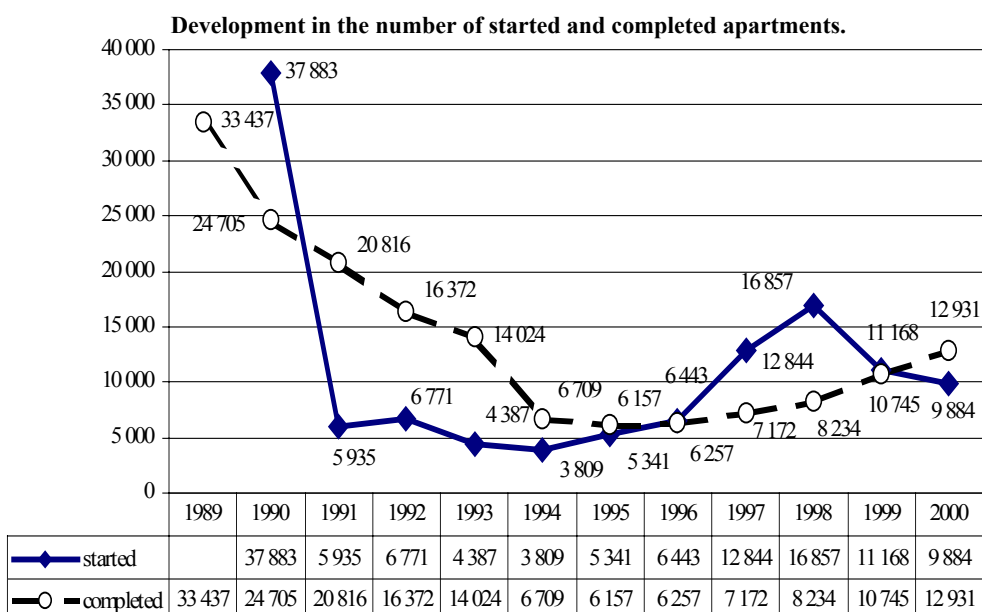
At the time being the estimation is that the Slovak Republic lacks about 200,000 dwellings, mainly in urban areas. In this context a construction decrease after 1990 has negative impact on availability and affordability of housing.

The first formalized reaction on the declining performance of the housing sector was taken in the framework of the first State housing policy to the year 2000 adopted in 1995. The system of economic instruments supporting housing development has been gradually established. Main elements of the system were: Building Saving Scheme (since 1993), the State Housing Development Fund (since 1996), and mortgage loans (since 1997). Thanks to these instruments, recovery of housing construction took place, however the housing need of the population have not yet been covered by an adequate and affordable housing supply.

After an initial improvement during the period from 1996 to 1998, a recession has started in 1999 in housing construction, due to the lack of available financial sources as well as due to the overall economic situation in the Slovak Republic.

The Figure 1 gives statistical data on the completion and starting of housing construction in the Slovak Republic over the period 1989 – 2000. Table 1 on the next page gives a more detailed insight into the tenure structure of the new construction.

Figure 1: *Housing construction in Slovakia.*



Source: Ministry of Construction and Regional Development.

It is obvious from the tenure structure and from the numbers of completed and started dwellings that the crucial part is being built in owner-occupied sector. In the year 1998 it was 74,4 %, in the year 1999 it was 83,1 % and in the year 2000 it was already 92,8 % of all completed dwellings.

However, the most significant feature of this period was the ongoing transformation of the ownership relations in the public rental and co-operative sector, the consequent growth of the share of the owner-occupied housing, and the significant decrease of the public rental sector. The Table 2 compares a situation in the end of 1998 among selected countries of Central and Eastern Europe.

With the exception of the Czech Republic, Poland and Slovakia, the proportion of owner-occupied housing exceeded 90 % and the public rental sector diminished to unfeasible rate. At present, approximately 6 % of dwellings remained in this sector in Slovakia, which could represent the basis of the future segment of social rental housing, i.e. for the lower income groups. This is a very small shares, when compared with the income structure of our population. Apart from that, there is practically no private rental sector existing in Slovakia. That significantly restricts the possibility of choice on the housing market. The unbalanced tenure structure was identified also in the ECE UN "Country Profiles on the Housing Sector – Slovakia" from 1999.

Table 1: Completed new housing construction according to tenure, 1980 - 1999¹⁾.

Year	Municipal rental housing		Other public housing		Cooperative housing		Owner occupied housing		In total	
	Number	%	Number	%	Number	%	Number	%	Number	%
1980	11437	100,00	5637	100,00	18527	100,00	12614	100,00	48215	100,00
1990	4153	36,00	154	3,00	10033	54,00	10365	82,00	24705	51,00
1993	2217	19,00	151	3,00	3474	19,00	8182	65,00	14024	29,00
1996	1428	12,00	13	0,02	1306	7,00	3510	32,00	6257	13,00
1997	2177	19,00	30	0,05	953	5,00	4012	32,00	7172	15,00
1998	1426	13,00	112	0,20	548	3,00	6148	49,00	8234	17,00
1999	951	8,00	193	0,40	673	4,00	8928	71,00	10745	22,00

Note: 1) Number of completed apartments is compared with the production in the year 1980 = 100.

Source: Statistical Yearbook 2000, Statistical Office of the Slovak Republic.

Table 2: Changes in the tenure structure in the selected countries in transition.

Tenure	Albania		Czech Rep.		Estonia		Hungary		Poland		Slovakia	
	1990	1998	1990	1998	1990	1998	1990	1998	1990	1998	1990	1998
Public rental	35,0	2,0	39,0	23,0	65,0	10,0	22,0	5,0	29,7	23,3	27,7	11,1
Private rental	-	-	-	10,0	-	-	0,5	1,0	5,2	3,4	-	-
Owner Occupied	65,0	98,0	41,0	44,0	35,0	90,0	77,5	94,0	50,9 ¹⁾	61,3 ¹⁾	50,2	71,9
Cooperative	-	-	20,0	23,0	-	-	-	-	14,2	12,0	22,1	17,0

Note: 1) Including cooperative ownership and single-family housing.

Source: Szolgayová 2000.

The available data on the income structure of the households in the Slovak Republic indicate, that the real costs for housing in both existing and newly built dwellings exceed the real possibilities of many households and housing becomes financially inaccessible for some households without various forms of support. According to last estimates, approximately 60 % of households have income maximum up to the double living minimum. It is therefore obvious, that the solution for the nearest period will have to be searched mainly in the development of the public rental sector, which, however, does not presently have suitable legislative and institutional framework.

To improve this development, and to increase a share of public rental housing for low income households, new programmes have been introduced in 1999-2000:

- Subsidy programme for municipal rental housing construction - provides grants in amount of 30 - 50 % of construction costs, it is possible to combine with the long term low interest loan from the State Housing Development Fund;
- Subsidy programme for technical infrastructure necessary for housing construction;
- Programme of the state guarantees for market bank loans.

The social policy in housing is demonstrated also by the implementation of housing allowance system since 2000. The act on housing allowance is tenure neutral. All households below certain income level per person are eligible to apply for the allowance.

2. Background for policy-making decisions

When discussing possible development scenarios and models for future development of housing sector in Slovakia, best European practices are used as a source of reference. Although there are significant differences in housing policies across Europe, certain typical features can be distinguished. One of them is tenure structure, as described in the Table 3. In this indicator transitional countries are on the top of the list of home owners.

Table 3: Tenure structure in selected EU countries (about 1990) and Central European countries (1998).

Country	TENURE			
	Owner-occupied	Social rental	Private rental	Other
<i>Austria</i>	50	18	21	11
<i>Denmark</i>	52	24	18	6
<i>Finland</i>	71	14	13	2
<i>Ireland</i>	81	11	8	
<i>Germany</i>	38	15	43	
<i>Netherlands</i>	45	40	15	
<i>Sweden</i>	43	36	21	1
<i>UK</i>	66	24	10	
<i>Czech Republic</i>	44	23	10	23
<i>Hungary</i>	94	5	1	
<i>Poland</i>	61	24	3	12
<i>Slovakia</i>	72	11		17
<i>EU</i>	56	18	21	

Source: Oxley 1996; Szolgayová 2000.

Development of social housing sector is related with the overall economic situation and performance in respective countries. Its flourishing period after the Second World War can be understood in connection with general housing shortage and low economic performance of that period (Boelhouwer & Heijden, 1992). However, social housing sector keeps its important position also in economically stabile periods (as illustrated in the Table 4). It is also reflected in the percentage of households in EU receiving subject housing subsidy. According to Maclennan at al. (1997), the share of these households fluctuated in mid nineties between 9 % (Sweden) and 24 % (Spain), with average of approx. 20 % (France, Denmark, Great Britain).

Table 4: *Social rental housing newly completed (as % of all new housing construction).*

	1980	1985	1990	1992	1999
<i>Denmark</i>	24	27	39	42	22
<i>France</i>	15	22	15	19	13
<i>Germany (FRG)</i>	11	12	16	16	14
<i>The Netherlands</i>	34	35	29	27	17
<i>Sweden</i>	21	27	25	27	16
<i>United Kingdom</i>	45	20	17	17	20

Source: Statistics on Housing in European Union 1994.

Housing has also very important role in the social functioning of the society. Kemeny (1992) highlighted the importance of the relationship between housing and social structure and their connection to the principles of the welfare state. Because of cultural and social traditions in the previous decades in Slovakia, it is considered to be highly important to promote social cohesion and integration, particularly in the situation of strongly differentiated income structure. Therefore it is necessary to promote development of nearly disappeared social housing. It is also important to newly define different aspects of the "social" in housing, including clarification of the role of the condominiums in this connection.

In order to develop a reasonable type of social housing, effective institutional solution should be found. Recent tendency toward more marked oriented approach is visible in different types of non-profit housing organisations, which are important players on the housing market in several European countries (Table 5). It is envisaged that this arrangement could be a model for future development of the public rental sector in the Slovak Republic.

Table 5: *The share of the non-profit sector on the total housing stock.*

Country	Total number of housing units (1000)	Total h.u. in non-profit sector (1000)	Share of the total housing stock (%)	Share of the rental housing stock (%)
<i>Austria</i>	3 100	425	14	36
<i>Belgium</i>	4 000	250	6	19
<i>Denmark</i>	2 400	430	18	45
<i>England</i>	20 200	850	4	13
<i>France</i>	22 500	3 300	15	38
<i>Germany</i>	28 400	2 500	9	17
<i>The Netherlands</i>	6 300	2 300	37	74

Source: Donner 1998.

3. The current State housing policy

The Government of the Slovak Republic approved in May 2000 the **Principles of State Housing Policy up to the year 2005 with an outlook up to 2010**. It is a framework document providing a wider comprehensive overview of co-ordinated objectives of the State in partial areas concerning housing for a period of 10 years or – in the format of an action plan – of 5 years. The Principles determine basic aims of the housing development and steps to achieve these aims, formulate the role of citizens, municipalities, state and private sector in providing housing and set a task to complete the transformation of legal framework and the instruments for housing development to the market conditions. The main goal of the State is to create a balanced housing market and achieve the situation in which each household will be able to find adequate housing. This should be based not only on the current considerably differentiated income structure of households, but also on the economic capacity of the State.

The Principles of the state housing policy are based on the fundamental UN policy documents in the field of housing: the Vancouver Declaration (1976), the Global Strategy for Shelter (1988) and the Habitat Agenda of Istanbul (1996); as well as the recommendations of the specific UN study Country Profiles on the Housing Sector–Slovakia (1999).

The Principles were preceded by the Housing Construction Development Concept, approved in 1999, which elaborated in details the macro economic background of the housing development; quantified needed annual housing construction including its structuring by construction and tenure forms. It gave also the calculation of necessary funds, along with a proposal of their sources.

The role of the State is in both documents seen in particular in formulating the legal framework necessary for the various actors in the housing sector and in creation of the necessary economic instruments of the loan, subsidy and tax policy. The role of municipalities is focused in particular on promoting spatial conditions for the housing development within the territorial development of settlements and preparing local housing policy documents.

Low average incomes of the population and a high unemployment rate constitute the most significant barrier for the access to the housing market. Because of that, it is considered necessary that the State and municipalities create suitable conditions and adopt efficient measures to provide for the affordability of housing for the inhabitants.

According to the Principles the role of the State is among others to:

- Establish a system of economic instruments in the field of subsidy, loan and tax policy stimulating investment in the housing construction and renewal of the housing stock, which would safeguard the implementation of the intents of the Principles of the state housing policy and the housing development action plans;
- Establish a legal framework stimulating the housing development and provide for modifications of those legal regulations, which create barriers in the housing development;
- Define the public rental (social) housing sector;
- Participate in the funding of the public rental housing construction, in the removal of the structural defects of residential buildings; and in financing of technical infrastructure necessary for the construction and utilisation of new housing;

- Promote suitable conditions for the participation of the private and banking sectors in all activities related to the housing development and to the capital market operation.

A decrease in the share of rental housing to some 6 % in 2000, along with the requirements on the labour force mobility, income structure of households, high market prices of housing and some 28 thousand new marriages concluded annually in Slovakia suggest, that the housing support has to be channelled in particular towards a gradual increase of the construction of new rental dwellings, so that their share would be approximately 50 % of the new construction around 2010.

To cope with the existing lack of housing in urban areas and to comply with the Programme Declaration of the Government, necessary would be construction of 14 thousand dwellings annually.

Subsidy instruments need to be modified in a way differentiating the state support targeted to the various types of housing according to the income groups of the households:

- Public rental housing for low income groups, using loans of the State Housing Development Fund and subsidies from the state budget combined with municipal funding or funding of other developers willing to use their own funds for the construction of rental housing while respecting the non-profit principle;
- Housing construction in residential and single family houses in owner-occupied sector for the middle income groups of households with the support of State through the State Housing Development Fund, building savings, mortgage loans and efficient tax benefits;
- Private rental housing and owner-occupied housing in residential and single family houses for the highest income groups of the population on a commercial principle by the business sector using own funding, building savings, commercial and mortgage loans.

At the same time, it will be necessary to continue in the rent deregulation and differentiation according to quality, location and participation of public funds in the housing construction. With a view to this, it is necessary to adapt legal regulations so that it will be possible to apply the following forms of rent:

- Market rent in the private housing sector pursuant to an agreement (multifamily housing and single family houses)
- Cost-covering rent derived from the acquisition price of the housing in newly-built dwellings with a participation of public funds of the State, municipalities, the National Property Fund, etc.
- Regulated rent in existing municipal rental dwellings. The level of cost-covering rent should be achieved by the year 2003.

To provide for the construction and management of new public rental housing, it is envisaged to prepare a legal regulation for the non-profit housing associations. Stipulating the management rules by a legal regulation will safeguard the rational way of activities of these organisations.

The issue of social housing is discussed in the Principles in a separate chapter, but only in the general terms. According to that in the framework of social housing policy, the role of the State will be to prepare economic and legal preconditions of housing affordability to households with low and medium-level income.

The main contribution of social policy to the housing sector will be in the following period specific means-tested housing allowance (introduced in 2000) for low-income

households and a gradual improvement of this system. On the other hand, the act on housing allowances has allowed for the deregulation of the rent, established a suitable starting line for the revival of rental housing construction and is of benefit for the state housing policy.

Based on the income structure of households, it will be necessary to support mainly the construction of rental housing for lower income groups of inhabitants. The housing construction for public rental sector may – at the beginning – be provided for by municipalities and later – after the legal regulation is approved – by non-profit housing associations.

For financing of this segment of housing market, soft loans of the State Housing Development Fund and state subsidies will be granted. In this category of rental housing the following types of dwellings will be included:

- Dwellings in the public rental sector including apartments with small floor-area targeted e.g. as the first housing for young families. Entitled to such housing will be only households up to a certain income level; it will be requested to apply cost-covering rent;
- Special housing forms for low-income households and groups with specific needs like e.g. apartments for citizens in social need, for handicapped, single parents with small children, citizens after the completion of institutional care, lower standard apartments for tenants who deliberately do not pay rent, citizens with adaptability problems and homeless;
- Apartments for elderly persons, where construction will be organised by the regional administration. The way of funding and the selection of their future users will be based on the income situation of the future users.

It is expected, that the funding of the housing construction and renewal of housing stock will – in addition to the own resources of owners and developers – exploit a comprehensive system of economic instruments, mainly soft loans and tax incentives. The renewal and modernisation of the existing housing stock will be funded mainly from the resources of its owners and from commercial bank loans. The state will enter the process only by creating incentives for investment in the renewal, in particular through the tax system.

Till 2005 it is foreseen to allocate funds in the state budget for:

- Subsidies for the construction of rental dwellings of a limited floor-area and price level targeted at socially weaker population groups;
- Subsidies for the construction of technical infrastructure necessary to build and use new apartments;
- State premium for building savings;
- Subsidies to the State Housing Development Fund, from the means of which loans will be granted mainly to households with lower income and for the construction of rental housing as well as for the renewal of residential buildings;
- State subsidy for the development of mortgage funding by repaying a part of the interest on mortgage loans;
- Purchasing mortgage bonds by the State for a period until insurance and pension funds are able to take that function over;
- Implement the support programme of housing construction by providing bank guarantees for loans for construction of residential buildings.

It is expected that by a gradual stabilisation of economy, the share of funds invested in the housing by the State will gradually decrease, the significance of mortgage financing of housing construction will grow and the direct involvement of the State will be focused on social housing only, with municipalities having the most important role in co-ordinating local housing and social policies.

4. Conclusions

During the transition period different aspects of housing sector have changed in a considerable way. Some of the outcomes have negative impact on social stability and satisfaction of elementary human needs. There are several groups of households, which are in need of differentiated support related to their housing.

The role, scope and expected type of social housing sector should be defined on the national level in a more precise way. It is also important to react on the challenges arising from a huge owner-occupied sector in existing housing stock with differentiated income structure and capacity of the new owners. The challenge of management, maintenance and renewal of the privatised multifamily housing stock belongs formally to the owner-occupied sector, but has also several features to be discussed in the framework of the social housing.

Affordable housing can contribute to the economic stability and has a crucial role in promoting social integration. Good local housing policies can help in fostering appropriate tenure and social mix and can contribute to better flexibility of local housing markets.

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