

CONTRIBUTIONS TO ECONOMICS

Sasha Tsenkova

Housing Policy Reforms in Post Socialist Europe

Lost in Transition



Physica-Verlag
A Springer Company

Housing Policy Reforms in Post Socialist Europe



Sasha Tsenkova

Housing Policy Reforms in Post Socialist Europe

Lost in Transition

Physica-Verlag

A Springer Company

Prof. Dr. Sasha Tsenkova
University of Calgary
Faculty of Environmental Design
2500 University Drive NW
Calgary, Alberta, Canada
T2N 1N4
tsenkova@ucalgary.ca

ISBN 978-3-7908-2114-7 e-ISBN 978-3-7908-2115-4
DOI: 10.1007/978-3-7908-2115-4

Contributions to Economics ISSN 1431-1933

Library of Congress Control Number: 2008936409

© 2009 Physica-Verlag Heidelberg

This work is subject to copyright. All rights are reserved, whether the whole or part of the material is concerned, specifically the rights of translation, reprinting, reuse of illustrations, recitation, broadcasting, reproduction on microfilm or in any other way, and storage in data banks. Duplication of this publication or parts thereof is permitted only under the provisions of the German Copyright Law of September 9, 1965, in its current version, and permission for use must always be obtained from Springer. Violations are liable to prosecution under the German Copyright Law.

The use of general descriptive names, registered names, trademarks, etc. in this publication does not imply, even in the absence of a specific statement, that such names are exempt from the relevant protective laws and regulations and therefore free for general use.

Cover design: WMXDesign GmbH, Heidelberg

Printed on acid-free paper

9 8 7 6 5 4 3 2 1

springer.com

Preface and Acknowledgements

The transition from a centrally planned to a market-based economy in Central and Eastern Europe has been one of the fundamental transformations of the 1990s. The ‘shock therapy’ effectively dismantled the state-owned economy and state institutions. The profound transformation no doubt has major economic, social and political implications for post-socialist societies and is reflected in the restructuring of national housing systems.

The purpose of this book is to explore both theoretically and empirically the impacts of housing reforms on housing system performance in post-socialist countries. In exploring this phenomenon, it views housing systems as a set of institutions organised in the process of promotion, production, allocation and consumption of housing as socially embedded in political, social and economic contexts. The work, based on a comparative analysis of housing policy reforms in nine countries in South East Europe, seeks to identify major patterns of change in the housing systems in the context of the transition from planning to markets. The conceptual framework for this comparative evaluation is designed to offer insights into policy intervention to achieve more efficient and equitable performance of housing systems. Although housing policy in the region was ‘lost’ in multiple transitions, the book argues for more strategic policy reforms that enable market institutions to work more efficiently in national and local contexts.

The book draws on a comparative study on *Trends and Progress in Housing Reforms in South East Europe* commissioned by the Council of Europe Development Bank. The author gratefully acknowledges the financial support for the study as well as the assistance of the Council of Europe, the United Nations Economic Commission for Europe and the Norwegian Ministry of Foreign Affairs for this research. My special thanks to colleagues from the Council of Europe Development Bank and to Dr. Niels Peter Thomas, Editor of *Business/Economics*, from Springer for their insightful comments on the earlier version of this manuscript. The award of a Killam Fellowship for Canadian scholars provided some unique opportunities for further research in 2007 and made the completion of this book possible.

The nature of international research necessitates collaboration with colleagues. Members of the Council of Europe Housing Expert Network were instrumental in the process, assisted with administration of the surveys and provided constant feedback. A number of researchers, developers, bankers, housing managers and policy makers

shared information, publications and their experiences during my field work in South East Europe. I thank them all for their very professional assistance and input.

The author and publishers are grateful to the Council of Europe Development Bank for permission to adapt and modify copyright material. The findings, interpretations and conclusions expressed here are those of the author and do not necessarily reflect those of the Council of Europe Development Bank who cannot guarantee the accuracy of the data included in this study.

November 2008

Dr. Sasha Tsenkova

Contents

Preface and Acknowledgements	v
List of Figures	xiii
List of Tables	xvii
1 Introduction: Conceptual Framework for Comparative Analysis	1
1.1 Introduction	2
1.2 Major Themes in the Literature on Post-Socialist Housing Systems.....	5
1.3 Conceptual Framework	9
1.4 Analytical Model: Performance and Policy Outcomes	13
1.4.1 Fiscal Policies	15
1.4.2 Financial Policies.....	15
1.4.3 Housing Market Policies.....	16
1.5 Housing System Performance Indicators.....	16
1.5.1 Distributional Efficiency.....	17
1.5.2 Improvement of Housing Quality.....	17
1.5.3 Stability in Housing Investment and Production.....	17
1.5.4 Differentiation of Prices and Rents	18
1.5.5 Affordability and Choice	18
1.6 Research Methodology	18
1.6.1 Review of the Literature	19
1.6.2 Surveys and Field Work.....	19
1.6.3 Comparative Evaluation and Validation	20
1.7 Scope and Content of the Book	20
2 The Legacy of Socialist Housing Systems	25
2.1 The Legacy of the Socialist Model of Development	25
2.2 The Socialist Housing Policy.....	27
2.2.1 The Legacy of the Socialist Housing Model	28
2.2.2 Housing Policy Reforms.....	30
2.3 The Socialist Housing Systems: Performance and Outcomes.....	33

2.3.1	Housing Conditions	33
2.3.2	Forms of Housing Provision.....	37
2.3.3	Tenure Structure and Property Rights	42
2.3.4	Housing Costs and Affordability.....	44
2.4	Crisis and Transition in the Housing System	46
3	Political, Social and Economic Transitions	51
3.1	External Factors Influencing the Performance of Housing Systems	51
3.1.1	The Political Transition	51
3.1.2	The Economic Transition.....	53
3.1.3	The Social Transition.....	58
3.2	Concluding Comments.....	62
4	Housing Policy Reforms in South East Europe	65
4.1	Major Housing Policy Developments: Challenges and Opportunities.....	65
4.1.1	The First Phase of Housing Reforms	65
4.1.2	The Second Phase of Housing Reforms	68
4.1.3	Progress in Housing Reforms.....	70
4.2	Institutional Reforms: Privatisation and Private Sector Growth.....	72
4.2.1	Public Sector Institutions in Housing Provision.....	73
4.2.2	Private Institutions in the Provision of Housing.....	77
4.2.3	Non-Government Organisations and Housing Market Intermediaries	80
4.3	Reforms of the Legal Framework for Housing.....	81
4.3.1	Property Rights Legislation	82
4.3.2	Legislation on Housing Loans and Mortgages.....	85
4.3.3	Legislation on Housing Privatisation.....	86
4.3.4	Legal Framework for Apartment Ownership and Management.....	87
4.3.5	Legislation on Construction and Planning.....	88
4.3.6	Taxes and Transaction Fees	89
4.4	Institutional and Legal Reforms: Concluding Comments	90
5	Government Support for Housing.....	91
5.1	Fiscal and Financial Instruments to Support Access to Affordable Housing	91
5.2	Direct Public Provision of Homeownership Housing.....	93
5.3	Demand-Based Assistance to Homeowners	95
5.4	Provision of Public/Social Rental Housing	97
5.5	Housing Assistance to Low Income Households in the Rental and Owner Occupied Sector	100

5.6	Housing and Refugee Related Issues in the Region.....	100
5.6.1	Housing Programmes in Bosnia-Herzegovina.....	101
5.6.2	Housing Programmes in Croatia.....	104
5.6.3	Housing Programmes in the Former Yugoslav Republic of Macedonia.....	106
5.6.4	Housing Programmes in Serbia and Montenegro.....	106
5.7	Refugee-Related Housing Programmes in Kosovo/UNMIK.....	108
5.8	Concluding Comments.....	110
6	Housing Systems: Performance Challenges	113
6.1	Assessment of Housing Distribution in the Region.....	113
6.2	Improvement in Housing Quality: Regional Challenges.....	117
6.2.1	Access to Technical Infrastructure.....	117
6.2.2	Deteriorating Quality of Existing Housing.....	118
6.2.3	Substandard Housing	123
6.3	Tenure Structure and Housing Choice	123
6.4	Housing Investment and New Housing Construction.....	128
6.4.1	Trends in New Housing Construction	128
6.4.2	Informal Housing.....	130
6.4.3	Constraints for New Housing Development.....	131
6.5	Affordability of Housing.....	132
6.5.1	Income Differentiation.....	132
6.5.2	Housing Costs	133
6.5.3	Prices in Emerging Housing Markets.....	133
6.6	Concluding Comments.....	138
7	Housing Privatisation, Housing Management and Public Housing.....	139
7.1	Privatisation and Housing Management: A Troubled Relationship.....	139
7.1.1	The Institutional Framework for Housing Management.....	140
7.1.2	The Evolving Legal Framework for Housing Management.....	142
7.1.3	The Triple Challenge for Asset Management.....	145
7.2	Public Rental Housing: Challenges and Future Prospects.....	150
7.2.1	Regional Perspective on Public Rental Housing	151
7.3	Changing Institutional Context	152
7.3.1	Rent Setting.....	153
7.3.2	Allocation.....	153
7.4	Financial Support for Public Housing	154
7.5	Maintenance Practices.....	156
7.6	Conclusion.....	156

8	Housing Finance and New Housing Provision	159
8.1	Bridging the Gap: Developments in Housing Finance	159
8.1.1	Overview	160
8.1.2	Banking Reforms	160
8.1.3	The Primary Mortgage Market	162
8.2	Mortgage Lending	165
8.3	Constraints for Mortgage Lending	168
8.3.1	Interest Rate Spread	168
8.3.2	Conservative Approach to Lending	168
8.3.3	Affordability Constraints	169
8.3.4	Lack of Construction Lending	170
8.4	The Housing Industry in Transition	170
8.4.1	Privatisation of Construction Enterprises	170
8.4.2	Private Housebuilders	171
8.5	The Transition in New Housing Provision	172
8.5.1	Forms of New Housing Provision	173
8.5.2	Quality and Costs in New Housing Provision	177
8.6	Economic and Social Efficiency of Private Housebuilding	179
8.6.1	Economic Efficiency	179
8.6.2	Social Efficiency of Private Housebuilding	182
9	The Transition in Housing and Informal Settlements	187
9.1	Informal Housing and Informal Settlements in South East Europe	187
9.1.1	Definitions	187
9.1.2	Spatial Manifestation and Formation Processes	189
9.1.3	Settlements for Vulnerable Groups	191
9.1.4	Location and Size	194
9.2	The Challenges of Informal Housing	194
9.2.1	The Economic Challenges	196
9.2.2	The Social Challenges	198
9.2.3	The Environmental Challenges	199
9.3	Policy Solutions	201
9.3.1	Legalization	202
9.3.2	Regularization and Upgrading	203
9.3.3	Resettlement	203
9.4	Informal Housing as a Problem and a Solution	205
10	The Transition in Housing and Nations of Homeowners	209
10.1	Lost in Transition: Housing Policy in South East Europe	209
10.2	Evaluation of Housing Policy Reforms	211
10.2.1	The Second Phase of Housing Reforms	211

10.2.2	Progress in Developing Effective Legal and Institutional Framework.....	212
10.2.3	Progress in Developing Transparent and Targeted Fiscal Policies	215
10.2.4	Progress in Establishing a Well-Functioning System of Housing Finance.....	216
10.2.5	Progress in Developing a Competitive Provision System for New Housing	218
10.3	Evaluation of Housing System Performance	221
10.3.1	Distributional Efficiency	221
10.3.2	Improvement of Housing Quality.....	222
10.3.3	Stability of Housing Investment and Production	224
10.3.4	Affordability and Choice.....	225
10.4	Concluding Comments: The Unfinished Agenda.....	228
Annex 1	231
Annex 2	235
References	239
Index	249

List of Figures

Figure 1.1	Countries in South East Europe. Source: World Bank	3
Figure 1.2	Privatised multi-family housing in Podgorica, Montenegro	4
Figure 1.3	New tradition built housing in Sofia, Bulgaria	8
Figure 1.4	A framework for evaluation of policy reforms and housing system performance	11
Figure 1.5	Determinants of housing policy and system performance	14
Figure 1.6	Informal housing in Kalugerica, Belgrade – home of 50,000 people today	22
Figure 2.1	High-rise apartment buildings in the peripheral housing estates of Bourgas, Bulgaria.....	37
Figure 2.2	New housing construction by type of investor in Albania, 1946–1990	38
Figure 2.3	New housing construction by type of investor in Romania, 1951–1981	39
Figure 2.4	New housing construction by type of investor in Bulgaria, 1961–1989	40
Figure 2.5	New housing construction by type of investor in Yugoslavia, 1953–1989	41
Figure 3.1	Regional distribution of population, 2002	54
Figure 3.2	Regional distribution of GDP, 2002	55
Figure 3.3	Regional GDP growth, 2000–2003	56
Figure 3.4	Regional trends in inflation, 2000–2003.....	56
Figure 3.5	Poverty in the region	59
Figure 3.6	Regional trends in population growth, 1980–2001	60
Figure 3.7	Urbanisation in Europe, 2002	60
Figure 4.1	The privatisation of public housing in the region, 1990–2002	66
Figure 4.2	The ladder of policy instruments	69
Figure 4.3	Inadequate progress in housing reforms in South East Europe	70
Figure 4.4	Housing policy priorities in South East Europe.....	71
Figure 4.5	Major challenges for housing reforms	72
Figure 4.6	The housing provision system: major institutions	78

Figure 5.1	Multi-apartment housing in Bucharest developed by the National Housing Agency	94
Figure 5.2	Subsidised housing construction in Croatia, 2001–2003	96
Figure 5.3	Tax incentives have provided a significant boost to new housing construction in Romania.....	98
Figure 5.4	Social housing in Brancusi District, Bucharest.....	99
Figure 5.5	Total return in Bosnia and Herzegovina.....	102
Figure 5.6	Estimate of refugees and displaced persons still seeking solutions in Southeast Europe.....	103
Figure 5.7	Roma camp in Podgorica, Montenegro.....	109
Figure 5.8	War reconstruction in Kosovo/UNMIK with donor assistance, 1999–2003	109
Figure 5.9	Refugees in Bosnia and Herzegovina	111
Figure 6.1	Dwellings per 1,000 inhabitants, 2002.....	114
Figure 6.2	Vacancy rates in South East Europe.....	116
Figure 6.3	Dwellings serviced by sewer and water, 2002	118
Figure 6.4	Dwellings serviced by central heating, 2002	119
Figure 6.5	Age characteristics of the housing stock.....	119
Figure 6.6	Housing estate on the outskirts of Sarajevo	120
Figure 6.7	War damage in the centre of Sarajevo	122
Figure 6.8	Ownership of housing in South Eastern Europe, 2002.....	124
Figure 6.9	Panel housing in Chisinau – home to owners and tenants.....	126
Figure 6.10	New housing in Podgorica in upscale neighbourhood rented to foreign institutions	126
Figure 6.11	Illegally constructed housing in Belgrade.....	127
Figure 6.12	Rates of new construction in South East Europe	129
Figure 6.13	Rates of private new construction in South East Europe	129
Figure 6.14	Urban growth and informal settlement formation in Tirana.....	131
Figure 6.15	Income dynamics in selected countries in South East Europe	133
Figure 6.16	Housing costs in selected countries in South East Europe	134
Figure 6.17	House prices in Belgrade city centre are the highest in the region.....	136
Figure 6.18	House price-to-income ratio in the region, 2005	137
Figure 7.1	Multi-apartment development: The gate of Chisinau	140
Figure 7.2	Multi-apartment housing built in the early 1990s in Prishtina with visible signs of deterioration.....	146
Figure 7.3	Low income multi-apartment homes in Skopje	147
Figure 7.4	Distribution of debts for housing services in Chisinau (%).....	148
Figure 7.5	Housing investment over the lifecycle of buildings.....	149
Figure 7.6	Arresting the decline in housing estates through better asset management.....	150
Figure 7.7	Tenants or owners: Illegal owner occupied housing in Kosovo/UNMIK	151

Figure 7.8	New social housing in Kosovo/UNMIK	155
Figure 7.9	Day-to-day asset management	157
Figure 8.1	Domestic credit as a ratio of GDP in the region, 2001.....	162
Figure 8.2	Interest spread in transition countries, 2004	168
Figure 8.3	Price-to-income ratios in Croatia, 2004	169
Figure 8.4	New housing through public/private cooperation in Shkodra, Albania.....	174
Figure 8.5	Private housing in Chisinau, Moldova	180
Figure 8.6	The largest housing development in Chisinau, Moldova, built by MAGIC	181
Figure 8.7	Cash payments have become the basis for financing of new housing	183
Figure 8.8	Typical medium density housing development in Burgas, Bulgaria.....	184
Figure 9.1	Informal housing neighbourhood in Skopje.....	188
Figure 9.2	Informal settlements in Belgrade	190
Figure 9.3	Slums and informal housing in Belgrade.....	191
Figure 9.4	New informal housing in Belgrade	197
Figure 9.5	Profile of informal housing residents in Belgrade	198
Figure 9.6	Environmental challenges due to informal housing in the coastal areas of Montenegro	201
Figure 9.7	Rapid growth of informal housing in peri-urban Pristina Kosovo.....	206
Figure 10.1	Informal housing on the outskirts of Prishtina.....	213
Figure 10.2	Progress in legal and institutional reforms.....	214
Figure 10.3	Subsidies to support homeownership in the region	217
Figure 10.4	Development of primary mortgage market and legal framework.....	219
Figure 10.5	Development of efficient framework for new housing provision.....	220
Figure 10.6	Substandard housing in the historical district of Skopje	223
Figure 10.7	Housing availability versus access to modern water and sewer services	224
Figure 10.8	Apartments in the pedestrian zone of Skopje are in high demand.....	227

List of Tables

Table 2.1	Housing condition under socialism	34
Table 2.2	Regional differences in housing conditions in the republics of Yugoslavia	35
Table 2.3	Conditions in new housing, 1984	35
Table 2.4	Tenure structure under socialism.....	42
Table 2.5	Housing costs under socialism	45
Table 2.6	Transition in the housing system.....	47
Table 3.1	Land, population and economic size	54
Table 3.2	Major macroeconomic indicators in South East Europe.....	57
Table 3.3	Major demographic indicators in South East Europe	61
Table 4.1	Matrix of priority areas for reforms in housing legislation.....	82
Table 5.1	Matrix of government support in different housing policy areas	92
Table 5.2	Matrix of fiscal housing policy instruments in South East Europe	92
Table 5.3	Refugees and displaced persons in need of durable solution, 2005	101
Table 5.4	Comparative indicators on war damage and reconstruction in BiH	104
Table 5.5	War related damage and reconstruction of housing, 2005	107
Table 6.1	South East Europe: Population and total housing stock	114
Table 6.2	Selected housing indicators in South East Europe.....	115
Table 6.3	Selected household and housing indicators in South East Europe	116
Table 6.4	Differences in tenure structure in cities and countries.....	125
Table 6.5	Housing submarkets in the capital cities in South East Europe	135
Table 7.1	Major determinants of housing management in South East Europe	143
Table 7.2	Major characteristics of public housing in the region.....	152
Table 8.1	Banks and mortgage lenders in the region, 2004.....	161
Table 8.2	Terms of mortgage lending in the region, 2004	167
Table 8.3	Construction firms by number of employees in the region.....	171
Table 8.4	Forms of new housing provision in South East Europe.....	176

Table 8.5	New housing provision: Selected indicators	177
Table 8.6	Land and construction costs in new housing, 1994–2004	178
Table 9.1	Matrix of informal settlement types in South East Europe.....	195
Table 9.2	Infrastructure deficit in the informal settlements of Tirana and Belgrade	200

Chapter 1

Introduction: Conceptual Framework for Comparative Analysis

The transition from a centrally-planned to a market-based economy in Central and Eastern Europe has been one of the fundamental transformations of the 1990s affecting more than 28 countries and affects over 400 million people. Post-socialist societies experienced immense economic and social changes associated with the restructuring of a monolithic system of central planning and state ownership of assets. The ‘shock therapy’ effectively dismantled the state-owned economy within a few years. Lines of authority, industrial suppliers, and distribution networks, suddenly disappeared. Parallel to that process, large scale privatisation of the industry and an opening up of previously sheltered markets created a new environment of competition. Certainly such a radical transformation within a short time frame is fraught with hazards. Rigid controls gave way in many cases to anarchy or to a series of ad hoc measures which aggravated economic and social hardships. The transition to markets occurred without the supportive institutional structure, and financial and legal transparency to facilitate economic change. This is a crucial, but usually unrecognised barrier to efficient market reforms.

The profound transformation no doubt has major economic, social and political implications for post-socialist societies, and is reflected in the restructuring of national housing systems. As such, it provides a unique opportunity to explore the impact of these reforms on the housing system. Sufficient time has now elapsed for more fundamental trends and patterns of change to emerge. This book attempts to address these issues through comparative analysis and evaluation of housing system performance in South East Europe, a region that has received very little attention in the housing literature. It reflects on the process of economic, societal and spatial change and its impact on housing systems in the region.

This chapter provides an overview of major themes in the comparative literature on housing systems in transition. It introduces the purpose of the book, its conceptual framework and scope.

1.1 Introduction

The book explores both theoretically and empirically the impacts of housing reforms on housing provision in the context of the transition from a centrally-planned to a market-based economy. Fifteen years after the overthrow of state socialism housing policy has lost its privileged status of a political priority as most politically embedded systems had favoured market-based solutions to housing problems. This departure from state controlled housing policies with the aim of providing a dwelling for every family is significant, particularly in some post-socialist countries where no new housing policy has emerged. The transition process, embedded in the paradigm shift from central planning to markets, has triggered off turbulence and adjustments with tangible outcomes in post-socialist housing systems. What has changed and what new housing systems have emerged during this dramatic ‘transition to markets and democracy’? Are these systems more efficient and equitable? These questions are the main focus of the book with an emphasis on diversity and change in housing reforms. The book supports the hypothesis that notions of convergence are not really appropriate to the conceptualisation of post-socialist housing systems. It argues that different housing policy choices are going to map out increasingly divergent scenario for future development.

Lost in Transition explores housing reforms and housing system performance in nine countries – Albania, Bulgaria, Bosnia and Herzegovina, Croatia, Former Yugoslav Republic of Macedonia, Romania, Republic of Moldova, Serbia and Montenegro with a reference to Kosovo/UNMIK in post-socialist Europe (see Fig. 1.1). The book aims to address major policy challenges in the development of appropriate regulatory, fiscal and financial instruments to enable the operation of housing markets and access to affordable housing. Within this context the research has the following objectives:

1. To review the impact of transition on housing reforms with a focus on developments in the legal institutional and financial framework
2. To evaluate the performance of market-based housing systems with respect to distributional efficiency, quality, investment, affordability and choice
3. To evaluate progress in major housing policy areas – fiscal, financial and housing market policies and to identify challenges and constraints.

Despite its diversity, the region is often perceived to be homogenous due to the ideology of socialist ruling regimes regardless of the historical and cultural differences between countries. Although countries in the region have a common legacy, there were significant differences in the way the socialist model was implemented as well as in the housing conditions of these nations (Banks et al., 1996; Clapham et al., 1996). The transition in housing was tempered by the unique features of the socialist housing systems, in particular by their high degree of homeownership and private housing production (Fig. 1.2). Perhaps the common feature in housing terms is the state/market mix and the importance of individually driven (self-help and self-promoted) housing solutions in these ‘nations of homeowners’ (Tsenkova, 2000 and Lowe, 2003). Such features continue to be defining characteristics of the new



Fig. 1.1 Countries in South East Europe. Source: World Bank database

market-based systems in South East Europe today, making the argument for ‘path dependency’ particularly relevant to countries in the region (Hausner et al., 1995). In other words, in the overall process of economic, political and social transition the performance of housing systems will reflect both the socialist legacy and the type of housing policy implemented. The hypothesis here is that the outcomes will manifest a growing divergence from Western European housing systems as well as divergence within the group itself.

The research in this book is driven by the premise that ‘housing policy matters’ and that better policies lead to more efficient performance of housing systems



Fig. 1.2 Privatised multi-family housing in Podgorica, Montenegro

(Barlow and Duncan, 1994; Struyk, 1996). It argues that efficient housing policy reforms are essential for the economic and social well-being of nations. The successful economic and social development of the countries in South East Europe requires urgent commitment of leading public institutions to more effective housing policies enabling the operation of housing markets and coherent efforts promoting social cohesion through well targeted support for the urban poor and disadvantaged. The research accounts included in the book capture both essential housing policy and market outcomes resulting from the transition processes. It provides an enduring and sound illustration of post-socialist housing systems in South East Europe through broad but rigorous conceptual framework, and fresh empirical evidence. The consequence of this is that it can be read at a number of different levels; the value of the individual chapters, the comparative analysis of housing policies and market performance, and as essays in the processes of socio-economic and institutional change in the housing sector. Taking the 'transition' metaphor as an overarching principle, the book relies on conceptual expositions, narratives and quantitative and qualitative indicators to illustrate the differences and similarities in housing policies and corresponding market performance. The approach is sensitive to historical and cultural differences, as well as to the more immediate socialist legacy. The book draws extensively on the results of a *Regional Study of Trends and Progress in Housing Reforms* carried out by the author for the Council of Europe Development Bank and the Council of Europe.

1.2 Major Themes in the Literature on Post-Socialist Housing Systems

Over the past 15 years a number of articles and research papers have been published about the transformation of housing systems in Central and Eastern Europe. Several studies provide insightful evaluations of progress of housing reforms in transition economies focusing on the privatisation of housing, the deregulation of property markets and the restructuring of housing production (Baross and Struyk, 1993; Renaud, 1995; Hegedüs et al., 1996; Struyk, 1996; Turner et al., 1992). Other comparative studies explore the implementation of specific policy instruments in the context of transition to a market-oriented housing system. Examples include reviews of reforms in the public rental sector (Lux, 2003), housing privatisation (Clapham, 1995), housing finance (Hegedüs, 2001; Struyk, 2000) and housing change (Tsenkova, 2003 and Lowe, 2003). Most of the comparative studies on housing reforms in transition economies attempt to capture the significance of the transformation process investigating trends and relationships between changes in housing supply, tenure structure, and housing finance. The discourse in this rapidly expanding literature thus far has centred on reform experiences, problems, and future prospects.

There is, despite the diversity of perspectives, a consensus on the key indicators which can be used to measure progress in the restructuring of the housing systems on market principles. While there is no ideal market-based housing model, the direction of change is defined by international and national commitments to more 'enabling housing policies' and collaboration of public and private institutions to provide affordable housing.¹ The enabling framework was defined by the World Bank in the early 1990s with recommendations for its implementation through constant monitoring of the housing situation to readjust policies, programs and projects (World Bank, 1993; United Nations Centre for Human Settlements and the World Bank [UNCHS-WB], 1993). A scaled down version of housing indicators for transition economies has evolved (Hegedüs et al., 1996; Buckley and Tsenkova, 2001; Tsenkova, 2002) to establish essential links between housing policy and market performance with some consensus on important clusters of indicators. This consensus, however, might also be attributed to significant information constraints and the limited data on housing in transition economies, rather than a common theoretical framework. The highly dynamic nature of those processes, which is not always possible to assess empirically, combined with differences in the housing market processes and housing policies, make comprehensive analysis and interpretation extremely difficult.

In addition, a number of studies have attempted to assess progress in the transition from a centrally-planned to a market-based system using a range of criteria – trends

¹The UN/Habitat Agenda adopted in 1996 reaffirms the commitment of Governments to ensure access to adequate housing. The right to adequate housing means that everyone will have adequate shelter that is healthy, safe, secure, accessible and affordable and that includes basic services, facilities and amenities, and will enjoy freedom from discrimination in housing and legal security of tenure.

in investment, subsidies, output levels, housing costs – to name a few (Dübel and Tsenkova, 1997; Renaud, 1995; Struyk, 1996). In most of these cases the authors map out a reform agenda, or are often concerned with a specific instrument or element of policy studied in a number of countries, such as support for private house-building (Tsenkova, 2000) or efforts to reverse the residualisation in public housing (Lux, 2003). Thus far there has been very little effort to conceptualise those processes employing a systematic theoretical framework for the analysis of different systems and the evaluation of market performance.

One stream of comparative housing research on transition economies is driven by economic determinism and could possibly be classified in the category of implicit convergence studies. The approaches essentially highlight the importance of economic development and socioeconomic characteristics for the comparative position of housing systems. One of the arguments advanced that before the transition the housing sector had been largely insulated from pressures created by macroeconomic adjustment, inflation, and market competition (Balchin, 1996; Renaud, 1995). The integration of the sector into the emerging market economy has resulted in the creation of explicit behavioural linkages between actors in the provision system – producers, developers, landlords, consumers – and a wide range of macroeconomic aggregates – income levels, inflation rates, and investment flows. These linkages have a powerful influence over the performance of housing systems in the transition process (Falcetti et al., 2003). More specifically, the role of the state in production, allocation, and operation of housing has been reduced. Along with these changes there has been a shift in the form of state intervention in housing – specifically the elimination of price controls, the restructuring of the housing subsidy system and a move towards privatisation of the state owned construction enterprises. Further, reforms of property rights, together with the privatisation of public housing and the restitution of nationalised property to former owners, have enabled the operation of housing markets, which in turn has altered socialist perceptions of housing supply and demand (Bresin et al., 1996). Housing reforms are largely induced by exogenous factors, and the housing sector acts as the shock absorber, but not the agent of change (Struyk, 2000). These studies, although very informative, tend to present all housing systems in transition in a uniform way with a less nuanced approach.

Another stream of comparative housing research is policy centred.² In addition to employing traditional approaches for policy analysis, some of these studies attempt to connect the experience of transition economies with processes of transformation in Western European housing systems resulting from neo-liberal policies. Bridging the gap between systems in transition and mature market-based ones is an important source of policy learning and policy diffusion (Doling, 1997).

²The significance of policy centred research is related to the strong emphasis on the right to housing in Europe. The *European Social Charter* of 1996 (Art. 31) states: 'With a view to ensuring the effective exercise of the right to housing, the Parties undertake to take measures designed: to promote access to housing of an adequate standard; to prevent and reduce homelessness with a view to its gradual elimination; to make the price of housing accessible to those without adequate resources.'

In these studies comparative housing policy analysis focuses on the impact of policy intervention on urban housing markets (Pichler-Milanovich, 1994; 2001) and public housing (Tsenkova and Turner, 2004). Major themes emerging from these studies relate to the withdrawal of the state from direct intervention in the housing sector, residualisation of public housing and policy collapse. Parallels are made to similar adjustments of housing policies in Western Europe, such as less government intervention in the housing markets, promotion of homeownership and replacement of brick and mortar subsidies for social housing with means-tested subsidies (Lundqvist, 1992; Kleinman et al., 1998; Somerville, 1994). The authors recognise that transition economies have experienced similar processes of change in the 1990s, but with far more dramatic consequences for their housing systems. These studies do not test for divergence, but attempt to establish country groupings with different policy regimes.

Comparative studies by Hegedüs and Tosics (1992), Clapham et al. (1996) and Hegedüs et al. (1996) have had a major influence on explanations of convergence. In these studies the East European housing model was a major point of departure (Fig. 1.3). Socialist countries were presented as a monolithic group with had highly centralised housing systems and comprehensive state control over the production, allocation and consumption of housing. Despite some variation in different national contexts, the role of state institutions in housing provision was critical (Hegedüs and Tosics, 1996; Turner, 1992). Housing in those relatively egalitarian societies was a constitutional right and was priced to be universally affordable. The actual operation of the systems, however, led to chronic housing shortages, overcrowding, housing inequalities and production inefficiencies (Hegedüs et al. 1996; Renaud, 1996). To counteract some of these generic explanations, several authors have pointed out that a lot of these features were present in the socialist housing systems, particularly in the Soviet Union, but former socialist countries were a heterogeneous group. They argue that despite five decades of state socialism, it is not correct to assume that the housing systems were identical. The similarities were a result of the centrally-planned model of economic and social development that was undeniably a powerful ideological imperative. However, within the socialist housing systems there were unique sets of socially created institutions, with their nationally specific history, structure and rules of operation, which had significant implications (Buckley and Tsenkova, 2001; Lowe, 2004).

Explanations of convergence also dominate a number of comparative studies that provide a comprehensive assessment of reform processes and progress achieved in privatisation, provision of housing finance, the development of new state/market mix to support access to affordable housing (Bothwell and Merrill, 2005; Dübel and Tsenkova, 1997; Urban Institute, 1995; Zülsdorf et al., 2004). Based on the notion of gradual transition and progress towards the development of the ideal market-based system, these studies provide practical policy recommendations on actions that need to be undertaken, designing a blueprint for housing reforms. The authors use politically correct geographical grouping of countries – Baltics, Central Europe, South Europe and Russia – to contrast and compare housing reform patterns using standardised benchmarks for progress towards market-based systems. Major findings



Fig. 1.3 New tradition built housing in Sofia, Bulgaria

relate to the changing roles of public and private institutions, and the shift from a supply-driven to a demand-driven provision system dominated by private housebuilding.

Currently, there is a scarcity of comparative studies that addresses the post-socialist housing reform agenda using the divergence approach which emphasises the diversity of housing systems. There is even a greater scarcity of empirical and analytical work that explores these processes of transition in the housing systems of the countries selected for comparative research in this book.

1.3 Conceptual Framework

The book draws on the convergence-divergence paradigm for comparative housing research (Kemeny and Lowe, 1998). The core idea of the convergence theory is that similarity of economic and demographic development in different countries will lead to converging housing policies, despite differences in ideology, politics and institutional structures (Burns and Grebler, 1977; Donnison and Ungerson, 1982; Schmidt, 1989). Doling (1997) broadened the convergence debate arguing that policy choices, such as housing privatisation policies, have contributed to policy convergence in Western Europe.

Comparative housing studies of European policies have emphasised the importance of common themes such as: greater role of markets in production, allocation and financing; promotion of owner-occupation; targeting of subsidies, selectivity of intervention; and emphasis on privatisation in housing management (Ball et al., 1987; Balchin, 1996; Harloe, 1995). Although not explicitly related to convergence theory, these and other studies have acknowledged the fundamental shift away from comprehensive housing policies to 'retrenchment' (Doling, 1997) and even 'policy collapse' (Kleinman et al., 1998) as a result of welfare state reforms. Esping-Andersen (1990) made perhaps the most significant attempt to identify patterns of dissimilarity based on distinct welfare state regimes. The approach has been refined through the comparative housing studies of Barlow and Duncan (1994) and Kemeny (1995) with the development of typologies of 'housing policy regimes'. In their evaluation of housing systems in a comparative context Barlow and Duncan (1994) employ notions of 'production', 'allocation' and 'dynamic' efficiency, asserting that highly marketised systems of housing production tend to be less efficient than more regulated ones according to those measures. In the spirit of divergence debates (Kemeny 1981, 1991), Ball and Grilli (1997) argued that despite similarities European countries have distinctive housing systems. Other major comparative assessments emphasised the importance of historic circumstances, political forces, and institutional structures in defining the parameters for convergence or divergence, which makes housing policy development 'Path dependent' (Boelhouwer and Heijden, 1992; Kleinman et al., 1998).

The convergence-divergence theories inform the development of a conceptual framework for the comparative analysis applied in this book. Notwithstanding the methodological difficulties, the research will construct taxonomy of the reform experiences in the nine countries and will test for convergence or divergence. The general hypothesis is that the basic tenet of convergence cannot be supported in the region. In other words, the reform path of South East European countries indicates that housing policy and housing system performance have become less similar over time with diverging experiences likely to accelerate in the future.

The conceptual framework is designed to explore the relationship between *housing systems and housing policies*. The emphasis is on evaluation of performance and outcomes measured through a range of qualitative and quantitative indicators. The *performance of a housing system* may be evaluated from the point

of view of either the individual or society (Kleinman, 1992; Martens, 1988). With respect to the individual, the performance relates to the quality of housing services which flow from the housing stock, the availability and price of housing, the rights associated with occupancy, and the degree of choice in access to housing. A very important determinant of housing choice is affordability of housing for different households in relation to social class, income, ethnicity, age, family size, etc. The quality of housing services flowing from the stock encompasses the 'bundle of housing services', including dwelling characteristics (condition, amenities, size, etc.), neighbourhood environment, and security of occupancy (Boelhouwer and Heijden, 1992; Bourne, 1981). From society's point of view, the performance of a housing system must be evaluated in the first instance in terms of the extent to which it meets the shelter needs of its citizens. Thus, performance relates to the adequacy of supply relative to 'need' as well as the quality of the stock and its availability at affordable prices (Doling, 1997). A well functioning housing system is expected not only to provide an adequate supply of housing of acceptable quality at any one point in time; it should be able to produce new housing to respond to household changes, as well as to maintain and improve the quality of the existing stock (Karn and Wolman, 1992; Stephens, 2002).

In the broadest terms a well functioning housing system needs to maintain a steady flow of investment in improvement of housing quality and to ensure that households have access to affordable and decent housing. Quality, affordability and choice are critical factors in evaluating national housing system performance. The implications for society, and correspondingly for public policies, are associated with the cost of housing of given quality and the ability of the system to deliver housing services in an effective and efficient manner (Angel, 2000). At the fundamental level the question how much of society's resources are devoted to support the production of housing or its consumption becomes critical. And how these resources affect the functioning of the housing market and the operation of private and public housing institutions is particularly significant (Dickens et al., 1985; Harloe and Martens, 1983). These critical reflections on housing system performance in the literature have influenced the design of a conceptually appropriate framework for this research.

In the *housing policy* realm, the literature documents the influence of fiscal and regulatory policies to enhance housing market competition (Bramley et al., 1995; Forrest et al., 1990). Monetary policies, social welfare policies, subsidies, regulation of the housing industry are powerful factors which shape the specific economic and social context in which housing systems function (Feddes and Dieleman, 1996, Maclennan and Whitehead, 1996; Oxley and Smith, 1995). The heterogeneity, durability, and locational fixity of housing also hold powerful implications for the conceptualisation of housing policy intervention (Bourne, 1981; Mandic and Clapham, 1996). These arguments, in addition to main findings from the literature on housing policy in transition, assist in the definition of significant policy areas to be investigated in this study, as well as in delineating important policy outcomes. The framework should be interpreted as a conceptual map that also determines the organisation and the scope of the book itself.

The conceptual framework defines three distinct policy arenas, each governing not only policy outcomes, but instruments and types of intervention as well.³ To the extent that the policy arena is dependent on exogenous factors such as economic and political constraints, the specific choices of instruments will be made (see Fig. 1.4). The most significant policies that affect the housing sector in transition economies are fiscal, financial and housing market policies (see Buckley and Tsenkova, 2001; Hegedüs et al., 1996). It is recognised that in addition to those main policy arenas, there are other kinds of policies that have immense and often unintended impacts on market performance.⁴ Given the diversity of policy responses across the region, the analysis will focus on policy outcomes and the way they define housing system performance. Correspondingly, housing performance can be measured through clusters of outcomes critical for a well functioning housing system: distributional

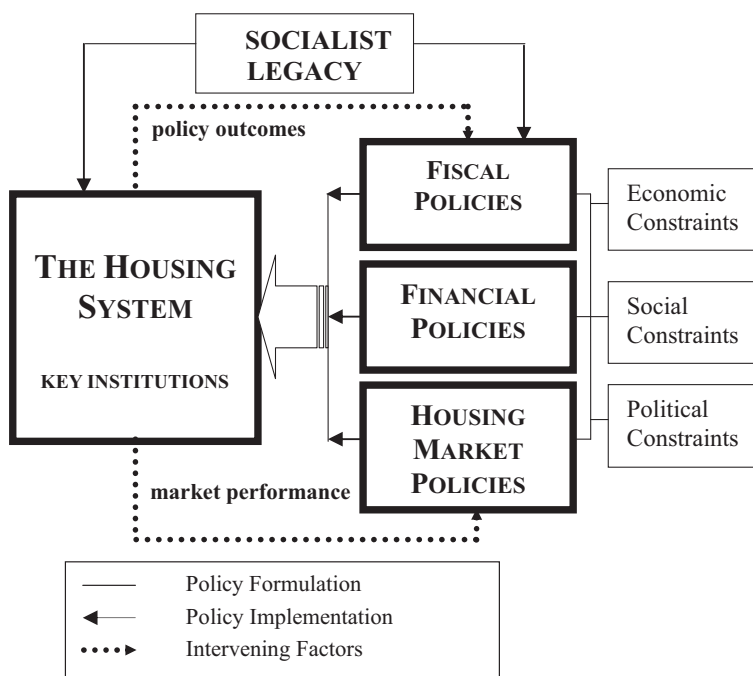


Fig. 1.4 A framework for evaluation of policy reforms and housing system performance. Adapted from Buckley and Tsenkova (2001)

³The framework draws on the evaluation model for housing policy and housing market performance in transition economies developed by Buckley and Tsenkova (2001). In its original application, it was used to provide a rapid quantitative assessment of the reform experiences in 12 transition economies through a set of 24 indicators.

⁴The latter would include shifts in macroeconomic policies, taxation, structural reforms, changes in political regimes and systems of governance. It has been argued, for example, that the influence of economic shocks across the region is still felt long after their first impact (EBRD, 2004).

efficiency; housing quality; stability of investment and production; differentiation of house prices/rents; and affordability and choice (Angel, 2000; Karn and Wolman 1992; Tsenkova, 2002). Changes in key policy areas, manifested in a series of market outcomes, correspondingly reshape the context for policy formulation and implementation, as well as generate new policy intervention. Since the aim is to make this comparison less ideologically biased, the approach evades the fallacy of policy centrism and does not view policies as the only driving force of the transformation process (Lundqvist, 1986). It specifically acknowledges the significance of historic, economic and political circumstances in defining the operation of housing systems, such as the legacy of socialist housing policies or institutional structures.

The framework provides a dynamic perspective, where the different parts act, react, and interact to produce change. The complexity of fiscal, financial and housing market reforms can be explored through evaluation of policy outcomes and the way they relate to the performance of the housing system. For the purposes of this comparative evaluation, it is considered important to explore processes of change and outcomes in the two main domains of investigation – *the housing system and the housing reform* – using approaches that allow a more nuanced analysis and in-depth review of reform experiences in each country. The conceptual framework complements the quantitative approach with a strong qualitative analysis of policy content, institutional behaviour and patterns of change in the housing systems.

First, the *housing system* is unpacked into discreet stages corresponding to the process of provision – promotion, production, exchange/allocation and consumption of housing (Ambrose, 1991; Ball, 1987). This approach has been applied in a series of international comparative studies, including those by Boelhouwer and Heijden, 1992; Ball et al., 1988; Barlow and Duncan, 1994; van Vliet, 1990). Housing provision is examined as a dynamic process of interaction between public and private agencies and institutions operating in the housing markets, focusing on their role in reshaping market outcomes.⁵ Given the importance of housing institutions in the reform process and their significance in reshaping housing systems in the context of transition, the emphasis is on the performance of three main clusters of institutions: housing management institutions (in private and public housing), builders of new housing (formal and informal), and housing finance institutions. While housing market processes in every country are a product of the specific interaction between political, economic and ideological factors, the institutional perspective assists in the conceptualisation of very dynamic processes (Rothenberg et al., 1991).

Second, *policy analysis* in the three important areas of reforms – fiscal, financial and housing market policies is undertaken with a focus on policy content, institutional arrangements for implementation, target groups and results. The implementation is linked to the choice of policy instruments: non-action, exhortation, regulation, taxation, subsidy and direct provision (Doling, 1997). Each constitutes a different approach,

⁵It has been widely recognised that investigation of institutional changes forms a key empirical question for housing research (Burns and Grebler, 1986; Harsman, 1991; Siksio, 1994; Schmidt, 1989).

although they are not mutually exclusive. Often a combination of policy instruments is packaged to achieve certain outcomes in housing system performance (Forrest and Murie, 1988; Lundqvist, 1986). The instruments applied in each country are grouped into demand and supply based and linked to each stage in the provision system – promotion, construction, consumption, thus reshaping structures of provision (Boelhouwer and Heijden, 1992). Adding another layer of complexity, these interventions can be implemented in various degrees and/or in support of particular tenure form.

In summary, the policy component in the conceptual framework is given the same analytical status as the arena of impact – the housing system. Policy outcomes are then related to time-series data on housing performance at the country and city level. In addition to the much-needed emphasis on the policy component, in the case of transition economies one important principle needs to be pursued systematically: the legacy of socialist housing policy and provision system needs to be examined in order to understand and evaluate the new market-based systems that have emerged. This is certainly the starting point determining the transformations experienced by South East European countries during the transition to markets. Understanding the complexity and the diversity of the socialist and market-based transition systems in their cause/effect relationship is crucial since they co-exist and overlap at the present stage.

1.4 Analytical Model: Performance and Policy Outcomes

On a more operational level, and to facilitate the comparative analysis that will follow, the conceptual framework is made operational through a model for analysis connecting housing market outcomes with policy outcomes. Figure 1.5 applies the framework to a particular housing market and identifies major determinants that map out these relationships. On the *supply side*, the flow of housing services from the existing housing stock, its physical condition, quality and tenure distribution are decisive factors for the operation of housing markets. Supply changes in the existing stock can take several forms: changes in the number and size of units through subdivision or conversion, changes in the quality and value of housing without physical alteration, changes in tenure, changes in the quality of the unit through modernisation and improvement. These changes, however, are less visible compared to new construction, which is the most dynamic component of housing supply. Housing supply is subject to a number of external influences such as economic growth and inflation.

Other determinants in the process of housing allocation are *demand related*. On the demand side, households are classified on the basis of household attributes, consumer preferences, and constraints. Income is usually taken as an overall index of the demand and purchasing power of households, while the house price is taken as an index of the type of housing supply available (Bourne, 1981). Housing demand in a market-based housing provision system is determined by external factors such as demographic trends, changing family and household

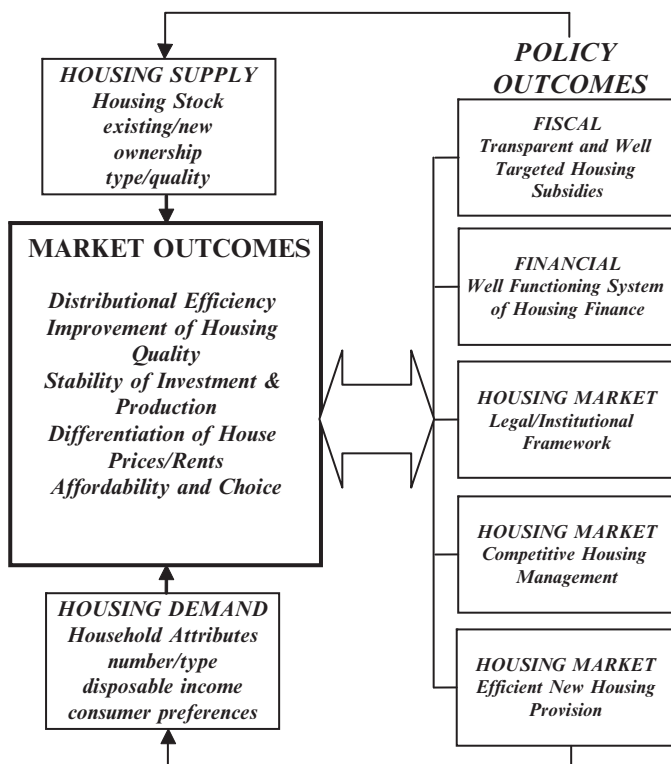


Fig. 1.5 Determinants of housing policy and system performance

composition, but more importantly by income distribution and affordability (Andersen and Munk, 1994). Those factors influence demand in the private rental market and owner-occupied.

As in long-established markets, the linking mechanism is the market allocation, which brings together households and housing units. The *market outcomes* in spatial terms are then related to land use changes and location patterns of housing supply (Bramley et al., 1995). More specifically, changes in demand are reflected in the type, quality, size and prices of new and existing housing. Several broadly defined clusters of market outcomes are critical for a well functioning housing system (Doling and Stafford, 1989; Karn and Wolman, 1992):

- Distributional efficiency
- Improvement of housing quality
- Stability of investment and production
- Differentiation of house prices/rents
- Affordability and choice.

These market outcomes are linked to major policy outcomes in the three areas of housing reforms – fiscal, financial and housing market policies discussed earlier.

Like Angel (2000) and Buckley and Tsenkova (2001), we evaluate policy outcomes with an emphasis on progress towards the achievement of:

- Well developed legal and institutional framework for competitive housing markets
- Transparent and well targeted housing subsidies
- Competitive housing management in private and public housing
- Well functioning system of housing finance
- Efficient provision of new housing.

A fundamental question here is what policies work best for different countries? What combination of policy instruments can achieve the most efficient and equitable response in the housing system? For example, subsidies for homeowners might alleviate affordability problems. Access to subsidised credit could provide a major boost to new housing construction. Financial instruments might serve as incentives to invest in improvement of housing quality and/or provide affordable rental housing. Policies increasing housing market competition such as privatisation may change tenure structure, or lead to more housing supply thus bringing the prices down. Alternatively, these policies could also create significant housing inequalities. The section below delineates the most important policy outcomes to be evaluated.

1.4.1 Fiscal Policies

Progress towards establishment of well designed and well targeted fiscal policies is essential for well functioning markets. The types of instruments selected can result in policy outcomes requiring direct expenditures of the government (grants, subsidies, tax incentives), or indirect, such as rent control, distributed in accordance with various levels of efficiency, transparency, and distributional equity (Doling, 1997; Donnison and Ungerson, 1982). Improved housing subsidy transparency is critical for better targeting and accountability of public funds. It would also provide a clearer signal to renters, homeowners and others in the private sector. Finally, and for transition economies and perhaps the most important measure, is the sustainability of the level of subsidies. What share of GDP is allocated in housing subsidies? (Struyk, 2000). Can this level be sustained within overall government budget, given the economic constraints and fiscally conservative policies? More importantly, what types of subsidies can be most efficient and equitable?

1.4.2 Financial Policies

Financial policies relate to the availability of long-term financing for housing and the diversity of mortgage products. They also explore the relationships of housing and mortgage markets and the implications for the economy (MacLennann and

Whitehead, 1996). Housing purchases and/or improvements require a combination of long periods of savings, access to borrowing, and subsidies. In a number of transition economies, the lack of affordable housing finance is considered a major problem. The analysis focuses on the legal basis for long-term finance and the competitiveness or ownership of the financial institutions. The latter has been important in most transition economies, as they have generally followed what has been described as a mono-banking system, in which one bank mobilised most of household savings (Renaud, 1996). Fluctuations in interest rates can have a profound impact on housing costs and investment. Inefficiencies of mortgage institutions can be measured by the spread – the margin between interest rates on mortgages and deposits.

1.4.3 Housing Market Policies

Perhaps the hallmark difference between housing systems in socialist and market economies is the role the public sector plays in ownership and control of housing assets. A transition to a market-based system implies a higher degree of private ownership over housing, no restrictions on market exchange and less state (public sector) involvement in the provision of housing services (Baross and Struyk, 1993; Clapham et al., 1996). Housing market policies are evaluated in three important areas. First, a comparative assessment is provided of the existing legal and institutional framework as a basis for housing market operation. An important aspect of a nation's housing system is the extent to which legal arrangements and operational practices allow the physical production, allocation and consumption of housing without imposing restrictions on main institutions and agents in the market (Priemus, 1993). Other concerns relate to legal arrangements that permit a dwelling to be perceived as a 'home', providing secure occupancy regardless of tenure conditions (Malpass and Murie, 1990). Second, the analysis of policies in this category evaluates the development of market-based institutions that manage and maintain the existing stock (private and public), and third, it provides an assessment of the competitiveness of providers of new housing (formal and informal). In this aspect, indicators that relate to economic and social efficiency of institutions are reviewed – output, costs, quality, as well as business strategies to overcome constraints.

The analysis below explores in more detail the selection of conceptually appropriate indicators to monitor housing system performance.

1.5 Housing System Performance Indicators

The market outcomes of a well-functioning housing system identified above can define a system of interrelated quantitative indicators organised in five clusters that will allow performance to be monitored and evaluated (Angel, 2000; Lujanen, 1993; MacLennan and Gibb, 1993). These indicators are described below.

1.5.1 Distributional Efficiency

The concern with the distribution of housing supply in the first instance is with the relationship of the total number of housing units in the country to the number of households wishing to occupy separate units. In most countries the problem of housing supply concerns the degree to which the actual national housing stock matches household demand. Is the stock in the right place, or are there cities or regions where housing shortages, or even homelessness, exist in the face of an overall national surplus? Is the housing supply appropriate in terms of its distribution in accordance with family and household characteristics? (Malpezzi and Mayo, 1994) Two indicators can measure housing consumption at the national and local level: number of units per 1,000 inhabitants and average space per person. Both indicators provide crude estimates of housing shortages and overcrowding (Sillince, 1990a). Other important measures refer to estimation of housing shortage/surplus and vacancy rate to permit choice and mobility.

1.5.2 Improvement of Housing Quality

Housing quality includes a variety of attributes: the actual physical structural condition, the presence of amenities (connection to piped water and sewer, central heating, etc.), the amount of usable space (both in area and number of rooms), and occupancy standards (Donnison and Ungerson, 1982). The concept of housing quality is relative and changes over time, unless specified in housing and safety standards. For the purposes of this analysis it is considered that the share of housing stock with water and sewer systems, bathroom and central heating will be used as an indicator of housing quality. Another crude measure of housing quality used is related to the age and structural characteristics of the stock with reference to housing types and construction systems.

1.5.3 Stability in Housing Investment and Production

The adequacy of a nation's housing investment must be judged by the relationship of existing housing supply and quality to changes in the need and demand for housing. Housing investment as a percentage of gross domestic product, as well as the division of investment among new construction, rehabilitation, and maintenance and repair, will vary with a nation's position in the urbanisation and development process (Donnison, 1967; Hegedus et al., 1996). Indicators in the comparative analysis focus on stability of investment, particularly trends in new housing production as the most dynamic indicator of housing market performance. In addition,

trends in the share of private construction, the quality and standards of new housing are considered important (Duncan and Barlow, 1991; Ball, 1996).

1.5.4 Differentiation of Prices and Rents

The physical quality of the surrounding structures, the social status and safety of the neighbourhood, the level of public service and access to local shops are all key factors affecting house prices and rents (Feddes and Dieleman, 1996). In the new market-based system the level of differentiation in different sub-markets – city centre, inner city, housing estates and suburbs – is in stark contrast with the previous uniformity of centrally controlled house prices and rent structure. High-rise estates at the urban periphery are unlikely to be valued as greatly as single family units with gardens or apartments in the historic parts of the inner city. Even if the actual physical quality of the properties is similar, the market reflects the desirability of location and reproduces these advantages and disadvantages in a house/rent price map (Pichler-Milanovich, 2001; Tsenkova, 2000). Indicators measure the emerging patterns of differentiation with respect to location in the capital cities with the most dynamic housing markets to demonstrate potential implications for housing policy intervention.

1.5.5 Affordability and Choice

In transition economies, the cost of housing represents the relative price of housing in the traditional microeconomic sense. How much must a household pay to sustain its housing status? In comparative terms this is probably best expressed as a percentage of household income spent on housing (maintenance and utilities) in different types of tenure (Forrest et al., 1990; Heijden, 2002). Given the contracting demand for owner-occupied housing, indicators also reflect the ratio of average house prices vs. average annual household income. Housing choices are linked to affordability and tend to be broader in a housing system with greater tenure diversity. Choice in the marketplace is determined by the ability to pay for housing services and private sector provision may be highly constrained due to low income (Barlow and Duncan, 1994; van Vliet, 1987).

1.6 Research Methodology

The theoretical and empirical challenge of this research is to hypothesise and empirically investigate relationships between different housing reforms and housing system performance. This task is made operational by employing taxonomic analysis of policy content on one hand, and the institutionalist approach to housing

provision on the other. This research, which employs both qualitative and quantitative techniques, is structured in *three parts*.

1.6.1 Review of the Literature

First, country specific reform strategies were explored more broadly through review of the literature – country monographs on housing reforms, officially published documents, reports, working paper series, and journal articles. This phase included an inventory of existing institutional databases, the development of analytical framework for comparative assessment and identification of information gaps.⁶ Within that broader framework, emphasis was placed on the identification of important themes and patterns of change to be analysed in the three policy domains – fiscal, financial, and housing market policies.

1.6.2 Surveys and Field Work

Second, the collection of quantitative indicators (time-series data) was carried out though a survey instrument administered by leading government agencies in each country. The survey was administered with the assistance of experts from the Council of Europe Housing Network for South East Europe. The set of housing policy and market indicators included in the survey was approved by the Network during its meeting in Zagreb, November 2003. The indicators track progress using census data (1990 and most recent) as well as time-series data organised in five thematic blocks: (1) demographics; (2) quality and distribution of housing; (3) new housing construction and investment; (4) affordability of housing; and (5) housing markets (see Annex 1). The data selection is consistent with the indicators adopted in the conceptual framework of this book. Another survey was completed by country representatives in the Council of Europe Housing Network for South East Europe (December 2004). The survey provided an evaluation of progress in four main areas particularly important for housing reforms – regulatory, fiscal, financial and institutional reforms in the sector. It also assisted in defining major challenges and policy priorities in the region (see Annex 2).

Additional data on housing market performance and information on recent developments in legislative reforms, housing finance and housing assistance was collected through key informant interviews in Serbia and Montenegro, Former

⁶Several secondary sources of information are particularly relevant. The Council of Europe Development Bank/World Bank recent publication ‘Housing in South Eastern Europe: Solving a Puzzle of Challenges’ (2003) provides the most recent overview of housing problems and issues in the region. The United Nations Economic Commission for Europe (ECE) has carried out several housing profiles of countries in the region – Bulgaria, Romania, Albania and Moldova.

Yugoslav Republic of Macedonia, Bosnia and Herzegovina and Moldova. Three-day research visits were undertaken to Skopje (December 2004), Sarajevo, Pristina and Chisinau (March 2005). Close to 45 interviews were carried out during the fact finding mission with housing policy makers, real estate agencies, banks, municipal housing organisations and representatives of central government and international agencies.

1.6.3 Comparative Evaluation and Validation

Based on findings from the literature review, surveys, interviews and comparative evaluation of country specific housing reform practices, the comparative evaluation of trends and progress in housing reforms was developed. The study was reviewed by experts from Council of Europe Housing Network, representatives of international organisations and academics, and published in June 2005 by the Council of Europe Development Bank. The next stages included a process of further consolidation and systematisation of the research with explicit links to theoretical explanations. Despite all efforts to address some gaps, the information in some sections is incomplete, which reflects the limited literature on the topic and the general lack of comprehensive databases in the region. While these are significant limitations of the research, this is the first comprehensive overview of housing policy and housing system performance in South East Europe using multi-level analysis and a variety of qualitative and quantitative methods.

1.7 Scope and Content of the Book

Individual chapters in the book are structured logically and integrated around a coherent central theme derived from the key elements of the conceptual framework: contextual influences; overview of housing policy intervention, analysis of housing system performance, and evaluation of market outcomes. The comparative analysis combines the theoretical and methodological discussions with empirical insights in housing market dynamics across eight countries in post-socialist Europe. The chapters revolve around the issues of decentralisation of political power and responsibilities for housing, commercialisation of the housing provision system, privatisation of land and housing, and the relationship between the choice of policy instruments and housing market outcomes. The case studies highlight the diversity of post-socialist experiences in the region and some unique challenges attributed to civil wars, political transformations and economic recessions. Finally, drawing on the research findings and discussions in the comparative sections, the concluding chapter provides insights into the overall performance of housing systems and highlights patterns of divergence in policy outcomes.

Chapter 1 introduces the rationale and objectives of the book, its methodology and organisational structure. It is one of the essential building blocks of the book. The conceptual framework of analysis uses an evaluation model for housing policy and housing market performance in transition economies. The model defines three distinct policy

arenas, each governing not only policy outcomes, but instruments and types of intervention as well. Policy implementation is then linked to a cluster of outcomes defining the performance of a well functioning housing system. The framework incorporates a range of conceptually appropriate indicators to allow comparative assessment.

Chapter 2 provides an overview of the socialist systems. The idea of ‘housing transition’ implies an identifiable starting point (the ubiquitous Eastern European model) and an end point (a market-based housing system) with some sort of evolution from one to the other. This chapter explores the imprint of the socialist legacy on the housing systems in the eight countries under review. It argues that the ideology of socialist ruling regimes had a significant influence over the housing systems, however, there were significant differences in the way the socialist model was implemented as well as in the housing conditions of these nations. Perhaps the common feature in housing terms is the high degree of private ownership effectively establishing ‘nations of homeowners’. This is an important point of departure for an evaluation of market-based systems and the ‘path dependency’ of their institutions.

Chapter 3 focuses on the political, social and economic transitions. It links the changes in the external environment (national and global), which are much more dramatic and revolutionary in nature, to changes in the internal environment (the housing system), emphasising the nature of ongoing transformation, reciprocity and diversity. It focuses on two aspects of the transition process – the ‘transitions’ to democracy (systemic political change) and markets (systemic economic change) using a set of economic, social and political indicators.

Chapter 4 explores important elements of housing reforms in South East Europe. In the context of multiple ‘transitions’ at the national level, the overview focuses on change and progress in the development of institutions, legislation and different housing policy measures to assist access to affordable housing and more effective operation of housing markets. In line with the conceptual framework these housing policy reforms are linked to major areas of policy intervention – fiscal, financial and housing market policies.

Chapter 5 evaluates the performance challenges in the housing systems using clusters of indicators defining market outcomes critical for a well functioning housing system: (1) distributional efficiency; (2) improvement of housing quality; (3) stability of investment and production; (4) differentiation of house prices/rents in housing markets; and (5) affordability and choice. It delineates a range of different responses by individual housing systems to similar challenges in the transition to markets.

Chapter 6 provides an overview of government support for housing and progress achieved towards the development of efficient and targeted subsidy system. Policy intervention is grouped in several clusters: mixed instruments, regulatory instruments, and direct provision. The outcomes of their implementation are evaluated with respect to targeting and tenure choice. Countries seem to be converging in their overwhelming support for homeownership through new housing construction, while very little is done to assist the poor and disadvantaged, either through demand-based subsidies or provision of affordable rental housing. The chapter provides an overview of efforts to address refugee related housing problems highlighting some of the important differences at the country/city level.

Chapter 7 evaluates progress achieved in developing a competitive system of housing management in the private and public stock. While housing privatisation

has been the flagship of the transition process, its implementation has created significant challenges for the management of multi-family housing. Most of the countries are left with a small, residual public sector housing to address the needs of the urban poor and socially vulnerable groups. The chapter evaluates government rhetoric and policy outcomes in two important housing policy areas: (1) the efficiency of the new system of housing management, and (2) challenges and future prospects for housing management in public housing.

Chapter 8 explores developments in housing finance and new housing provision. The analysis explores the different types of housing finance systems in the region. It argues that accelerating the restructuring of housing finance along market principles is closely linked to the stabilisation of the economy, but also depends on the competition among mortgage lenders as well as the development of better products. Further, the chapter explores the main characteristics of new housing provision systems with a particular emphasis on their economic and social efficiency.

Chapter 9 provides an overview of a phenomenon that distinguishes countries in the region – the explosive growth of informal housing and the formation of informal settlements. It develops a typology of informal settlements focusing on key characteristics – size, location, quality of housing, and profile of residents. It argues that the growth of informal housing is a manifestation of major inefficiencies in the market-based housing provision system and identifies economic, social and environmental challenges associated with informal settlements (Fig. 1.6). Finally, some solutions are reviewed using evidence from case study research in Tirana, Belgrade, and Podgorica.



Fig. 1.6 Informal housing in KalugERICA, Belgrade – home of 50,000 people today

Chapter 10 summarises key findings from the evaluation of housing systems and policy. It argues that housing reforms in the region have proceeded through ‘trial and error’ without a strategic vision for systematic, efficient and transparent housing policy intervention. The comparative evaluation suggests that a much stronger commitment to comprehensive reforms in the major policy areas might lead to better housing system performance. Housing conditions were different at the start of the transition, and some nations were better housed than others. Policy choices and the policy trajectory have increased these differences suggesting a growing divergence among countries in the region. It might be argued that there is a ‘reform path’ that countries have to follow to successfully improve housing system performance.

Chapter 2

The Legacy of Socialist Housing Systems

Evaluation of the recent performance of housing systems in the countries of South East Europe, their housing policies during the transition and institutional changes requires an in-depth understanding of the socialist housing system, its principles and main characteristics. The first and important point to emphasise is the immense diversity of housing supply and quality between countries and among cities within the same country. There were considerable variations in different housing delivery systems resulting in diverse tenure patterns and structures of housing provision under state socialism. The diversity also reflected the cumulative legacy of housing inherited from the past and changes in political priorities and social attitudes. Considerable variations within the 'socialist housing model' existed in the region and were clearly demonstrated in the widening differences between former Yugoslavia and Albania. While the analysis in this chapter will identify dominant characteristics and similarities in the performance of socialist housing systems in the region, it will also highlight some important differences affecting the path of transformation in the context of transition to markets and democracy. The chapter starts with a brief overview of the socialist model of development and its imprint over the existing socialist housing systems. This powerful legacy, driven by the evolution in housing policy since the 1950s and the performance of state and private sector agents and institutions, is manifested in a wide range of housing outcomes associated with housing distribution, quality, tenure forms and housing costs. The chapter presents these outcomes in a comparative perspective and identifies the direction of change and transformation across the region.

2.1 The Legacy of the Socialist Model of Development

Socialism as a system of ideas and as a political movement has taken a variety of forms. Despite this diversity, the socialist model of development has resulted in a number of central features that broadly defined the political and economic development of the countries following this path (Post and Wright, 1989). Politically the model is associated with the ruling of one party with no tolerance for political opposition. The communist ruling party forged an alliance between industrial and agricultural

workers, reportedly representing both interests. In economic terms the model is characterised by:

1. State ownership of the industry with relationships governed by centrally determined plans, rather than markets.
2. Extensive state control over investment and foreign trade with centrally planned investment projects in key areas – industry, transport, health, education and housing.
3. State intervention in labour markets with almost full employment and macroeconomic regulation of wages and labour mobility.
4. State control over prices, with state controlled system of wholesale distribution of agricultural and industrial goods, often associated with shortages of consumer goods and rationing.
5. Universal provision of social services – health care, education and housing.

Consequently, governments adopted the formal tools of socialist development – 5-year plans, nationalisation of industries, control over finance and foreign trade, elimination of and limitations on private property rights (Kornai, 1993; Morton, 1980).

The socialist path to development in the region diverges from the general model, implemented in its pure form in the Soviet Union (Andrusz, 1992). While responsibilities for industrialisation and development were vested with the working class and the communist party, the socialist states were forced to forge a new model of development in extremely challenging circumstances of post-war destruction, low level of economic development and limited industrialisation. These predominantly agricultural economies with primitive industrialisation, embarked on an agricultural revolution with largely disruptive outcomes for the peasantry (Turnock, 1989). Yugoslavia, and to some extent Albania, chose a different path thus avoiding the sheer destruction in the countryside resulting from collectivisation and the resistance to it. Notwithstanding these differences, state socialism focused on rapid transformation of urban areas in all countries and on the elimination of urban/rural inequalities. Both large-scale industry and urban land were nationalised. As the agricultural societies were shattered and land distributed to agricultural collectives, the countryside provided a massive flow of labour to cities, thus accelerating the pace of growth and industrialisation (Ellman, 1989). Full employment, the mobilisation of women into labour markets as well as the institutionalisation of the planning system in the early decade of state socialism, provided a major boost to economic development. Within the framework of interventionist state driven model of political and economic management, planners took control over prices of goods and the elimination of markets with the role of money reduced to a symbolic means of accounting for transactions (Kornai, 1993).

In retrospect, the mid-1970s appear to be a turning point for countries in the region, characterised by a slowdown in industrialisation and economic growth. Since the state owned and managed the means of production, centrally determined yearly and 5-yearly production targets guided economic development. In reality the planning task was so large and complex that planners could not oversee all economic

activity, nor could they guarantee that their directives would be enforced. At that point the socialist economies of South East Europe, with the exception of Albania, were predominantly industrialised with over 40% of the labour force in the industry, 15–28% in agriculture, and less than 35% in the service sector.¹ In socialist economies the service sector was considerably underdeveloped. To a large extent service activities (child care, health care, canteens, recreation, and culture) were internalised and provided largely by the state enterprises. Research indicates that in most of the cases the supply was inadequate, facilities worn down, technology outdated, and wages of personnel poor (World Bank, 2000, 2002). Trade, tourism, and personal services were kept at a minimum especially in rural areas and small cities. Social services – education and health care – were universally accessible and in most countries attracted considerable investment.

An elaborate and costly system of state cross-subsidies supported state enterprises and agricultural collectives. A large share of the industries added a negative value – input costs valued at world prices exceeded the value of output. Prices were controlled and much of the trade was according to centrally determined quotas and barter agreements within a supra-national economic organisation – the Council for Mutual Economic Assistance. In general, while the model was successful in mobilising resources (capital and labour) for the early stages of industrialisation, it was less useful in the latter stages where less ‘intensive’ industrialisation was required with more emphasis on innovation, improved labour productivity and technological advances. In the 1980s, most commentators agree that the model was in a state of crisis, with evolutionary changes being inefficient in addressing the paramount economic challenges (Almond, 1988; Vienna Institute for Comparative Economic Studies, 1986; Zanga, 1990). Although the model of state socialism in South East Europe diverges in a number of ways from its pure form advanced in the Soviet Union, all countries in the region by the early 1990s have embarked on a long and painful transition from a centrally planned to a market economy and have abandoned state socialism.

2.2 The Socialist Housing Policy

The socialist model of development in South East Europe has major implications for the operation of the housing systems. The housing system is understandably embedded in the overall political and economic system (Carter, 1990; Marcuse, 1996). In the housing sector the state-centred, nationally independent development

¹ Statistics indicate overall positive results in the level of social service provision comparing to the poor initial start. However, access to the comprehensive and free medical care often depended on one’s social status or contacts, which determined admittance to superior or ordinary medical institutions. Transport services were considerably well developed and supported by a large share of government investment. The transport system for manufactured goods (mostly railway and heavy truck transportation) required large resources and labour to be maintained (World Bank, 2000).

initiated by these countries was determined by two important drivers: (1) housing was a political priority; and (2) the centralised management of the economy allowed governments to direct and re-direct resources to the sector.² However, the choice of policy instruments was different and different institutions were used to implement centrally determined housing policy.

2.2.1 The Legacy of the Socialist Housing Model

The East European housing model developed by Hegedüs and Tosics (1992) can be used as an analytical tool to define similarities in the structure and performance of socialist housing systems in South East Europe.³ The model acknowledges the general logic and ideological reasons which underpin housing policies and applies the principles of state socialism and central planning to socialist housing systems. The East European Housing Model, broadly stated, has the following characteristics: state ownership of housing and allocation according to housing needs, centrally-planned production and state control over the important aspects of housing (e.g. level of housing investment, housing consumption, subsidies), low housing costs to consumers, no financial barriers for access to housing, and exclusion of market mechanisms in the production and distribution of housing. Certainly systemic similarities in the planning, organisation and implementation of housing sector activities have resulted in a number of generic features common to all socialist countries. However, there has been some ambiguity with respect to the applicability of the model in different national systems and contexts (Clapham, 1995). In each country there has been a different balance between the state and the private sphere in the provision system (Hegedüs and Tosics, 1996). Here we examine three major dimensions of these processes in countries of South East Europe: (1) the role of the state, (2) allocation of housing, and (3) housing production.

2.2.1.1 The Role of the State

The essence of the socialist housing system was state control in its important political and economic aspects. Until 1990 the state had a strategic responsibility for the whole housing system in former socialist countries. State institutions and enterprises

²An in-depth overview of changes in housing politics and political priorities is provided by Hall (1990) (Albania), Carter (1990) (Bulgaria), Turnock (1990) (Romania), and Andrusz (1992) (the Soviet Union). Commentaries of leading party official and statements from country leaders reiterate the political commitment to resolution of housing problems and the improvement of housing conditions.

³Though the model has been criticized by Lowe (2004), as an overarching development model which tends to ignore national differences and to oversimplify circumstances in individual countries, it can be used as a starting point for evaluation.

had a key role in planning and carrying out the actual production of housing (Gallagher, 1982; Hall, 1990). Economic management of the system was accomplished through central planning. The balance between central control and local initiative on behalf of housing authorities and individuals has varied over the years, but one common feature was central determination of major investment decisions, control over the allocation of resources, and excessive regulation of the process of housing production and distribution. In its extreme form these aspects defined the housing policy in Moldova, Albania and Romania (Turnock, 1990; Tsenkova, 2000).

2.2.1.2 Allocation of Housing

Access to housing was controlled by the local soviets (Moldova, Albania, Romania), municipal housing authorities (Bulgaria) and/or industrial enterprises (Yugoslavia). Units were allocated through a socialist administrative method of distribution in accordance with housing need, but regardless of income. The consumption of housing was restricted in accordance with national standards, which set maximum living space per person and household, taking into account household structure and number of children (Sillince, 1990b). Housing was a constitutional right, but households could own only one dwelling and could exchange it only with the approval of the local housing authority.⁴ Success in queuing was a crucial factor in obtaining a unit. There were housing shortages in high growth urban areas, and plenty of evidence that households were inadequately housed (Andrusz, 1992; Koleva and Dandolova, 1992; Struyk, 1996). An example of urban housing shortages is the so-called 'hidden homelessness' demonstrated in the high percentage of households sharing accommodation with parents or relatives, not to mention a waiting period of 10–15 years to buy housing in large urban areas. Housing was sold at the discretion of local housing authorities (Bulgaria and Romania) or enterprise committees (Yugoslavia) at nationally fixed and uniform prices (Carter, 1990; Mandic, 1992). Under those circumstances consumers, not surprisingly, had limited choice over the type and size of the units, their location and quality.

2.2.1.3 Housing Production

State monopoly over housing production in the socialist states meant a highly centralised institutional, administrative and financial system for new housing supply. State tariffs were adopted which set the prices of basic housing inputs – land, building materials, labour and the dwelling itself. Housing production was industrialised and concentrated in large-scale construction firms (e.g. Bulgaria, Romania, and Moldova). However, in attempting to solve housing problems present since the 1970s, some governments deliberately expanded the share of a 'market sector'

⁴Private ownership was limited to two dwellings in Yugoslavia.

operating within the state-controlled housing system. Housing cooperatives and self-help in Bulgaria and former Yugoslavia were legitimate forms of housing provision (Kos, 1992; Tsenkova, 2000). Thus some responsibility for house building was shifted to individual households, mobilising personal resources and initiative. Self-help was also applied in Albania and Romania, particularly in the rural areas.

2.2.2 *Housing Policy Reforms*

With the differences that countries in the regions had with respect to history, culture, economic development and housing conditions, it is not surprising that they pursued different housing strategies.

For example, in Albania the ‘cultural revolution’ advocated rural development to ease the pressure on urban areas.⁵ The country’s leader Enver Hoxha openly spoke about the housing crisis in the 1970s due to rapid urbanisation and re-directed state housing programmes to rural areas (Sjoberg, 1992). In Romania the housing policy was influenced by social engineering and ideas of elimination of the rural/urban divide. Ceausescu’s regime reinstated strong state control in the 1980s and its housing policy backed up by building programmes was an essential instrument in the creation of urban-based communist society (Lowe, 1992). The former Yugoslavia was ‘the trend setter’ in the region. In the 1960s it abandoned the Soviet model of state ownership over production means and property and introduced social self-governance implemented through social-political communities (*drustveno politicke zajednice*). The model of social self-governance delegated more autonomy to self-managed enterprises and introduced solidarity funds and social ownership in housing (Topham, 1990).

Despite these differences, all countries in South East Europe had a comprehensive housing policy with the goal of providing every family with affordable housing. Changes over the years were driven by concerns over persistent housing shortages, rising costs of housing production and maintenance, and a search for more pragmatic approaches to the solution of housing problems (Donnison and Ungerson, 1982). However, the allocation of state resources to more productive sectors in the socialist economy resulted in cutbacks for housing since 1975. As the housing shortages persisted, coupled with growing frustration with allocation rules, poor quality and overcrowding, most governments expanded the role of the individuals and the private sector in the housing system. This move was part of a wider shift in political ideas towards a different state/market balance in housing, which might be a barometer of other economic and social changes in socialist societies (Sillince, 1990b). Very broadly, the housing policy of South East European countries progressed through three phases.

⁵ Albania was the poorest and the most isolated politically and economically country in the region.

2.2.2.1 Establishing the Socialist Housing System (1950–1970)

The start marked a commitment to comprehensive housing provision and state control, particularly since the 1960s. All countries in the region focused exclusively on housing supply measures to reduce the deficit in urban areas, a problem perceived to be the result of war damages and pre-socialist neglect of housing investment. Housing conditions were really poor and most of the housing in rural areas had no access to piped water and sewer. For example, the average number of people per room was 1.8 in Bulgaria (1956), 1.4 in Romania (1966), and 2.4 in Yugoslavia (1961) (Sillince, 1990a). The interventionist, supply based policy measures were dealing with the quantitative deficit using state funds, state construction enterprises and bureaucratic allocation of resources and housing. All countries in the region experienced rapid growth in state funded new housing production with significant impact in urban areas. Although the supply of housing did not match the level of population growth and urbanisation, this model was relatively successful in some countries where rapid intervention was required to address extensive war damage (Albania, Bulgaria, and Yugoslavia) and/or the housing needs of rural migrants to the new generation of industrial towns (Moldova and Romania).⁶

2.2.2.2 Evolutionary Reforms of the Socialist Housing System (1970–1980)

Although changes in housing policies in the region progressed with a different pace and political emphasis, they display some consistency. Housing remained a political priority but the 1970s marked a major shift in policy rhetoric and the choice of instruments used to deal with housing shortages. On one hand, policy reforms responded to the need to increase investment through resource mobilisation (cash and in-kind) and different organisational forms of housing provision allowing for higher share of private ownership of housing. This marked the end of state monopolies in house building, but the high level of control over the production, allocation and exchange of housing was maintained. This more pragmatic response to leveraging investment resulted in a new emphasis on housing quality as opposed to quantity, as well as housing provision more sensitive to consumer preferences through ideologically acceptable housing cooperatives and self-help (Andrusz, 1990; Tsenkova, 1994). Morton (1979) argued that the share of housing investment peaked in 1975 in most socialist countries and since then has declined. These shares, much lower compared to the Western European average at the time, were as follows: Bulgaria (9.5%), Romania (9.7%), and Albania (5%). In countries where private investment was later mobilised (Bulgaria and Yugoslavia), through mortgages and bank loans

⁶The challenges were indeed significant. In Romania, nine towns doubled in size – Brasov, Sibiu and Constanta – between 1948 and 1956. Apart from the industrialization drive, the urban population within that period grew by nearly 2 million while less than 150,000 dwellings were built with a minimal state contribution (Lowe, 1992).

to home owners, the share increased substantially in 1986. A much higher level of investment was directed to housing by the state in Romania.

2.2.2.3 Marketisation of the Socialist Housing System (1980–1990)

The last decade in the history of state socialism was plagued with economic problems. In the housing policy discourse, particularly in Yugoslavia, there was open criticism of the bureaucratic allocation system, its lack of transparency, and corruption. Growing discontent with the poor quality of state produced housing, the persistent housing shortages in urban areas (particularly acute in capital cities), and overcrowding was evident in Bulgaria, Romania and the Soviet Union (Andrusz, 1992; Carter, 1990). As Sillince (1990a) argues '[p]ersisting shortages inevitably led to the use of housing as political reward or wage supplement' (p. 50). The effects of these housing shortages were many and varied – 'hidden homelessness' resulting in inter-generational cohabitation and tensions, low birth-rate, delayed marriages and social dissatisfaction (Kosinski, 1977).

Chronic housing shortages, and problems with quality, maintenance and upkeep of the housing stock, clearly indicated a growing housing crisis. Furthermore, the disequilibrium between consumer preferences and housing outcomes had increased; the housing sector was incapable to meet the needs of all citizens (Hegedüs et al., 1996). On the supply side, rising construction costs due to inefficiencies of the state house building industries led to fewer units actually being built (Vienna Institute for Comparative Economic Studies, 1986) and the shortages of labour and materials became endemic. The longstanding policy of low rents and low housing costs contributed to disinvestment in the existing housing stock and aggravated problems in the existing pre-war housing. The socialist housing model in its pure form operated in the rental sector where the full capital costs – land, construction, maintenance and management – were borne by the state (Clapham et al., 1996). Policy reforms in the sector attempted to move rents towards cost recovery, at least to cover maintenance and depreciation (e.g. in Yugoslavia), as well as adjust rents according to housing quality. More emphasis was placed on the mobilisation of enterprise funds (e.g. in Romania and Bulgaria) for capital investment.

Marketisation of the housing systems in the late 1980s was not just a pragmatic economic response to reduce the burden on the state budget, but was also aligned with new ideas for economic management and measures to address inflation. Bulgaria and Yugoslavia also initiated the privatisation of rental housing in line with increased facilities for mortgages and housing construction loans (Hoffman and Koleva, 1993; Mandic, 1992). Absorbing personal savings, increasing much faster than the supply of consumer goods, to resolve the housing problems led to much higher rates of private finance and correspondingly higher rates of homeownership in the region. Romania, however, pursued a very different command-type strategy with over 95% of the new housing built by the state in 1989 and a ban on sale of rental housing due to concerns about inequalities (Lowe, 1992).

2.3 The Socialist Housing Systems: Performance and Outcomes

The overview of the socialist model of development and the evolution of housing policies in South East Europe under state socialism highlighted important differences and similarities. In summary, housing policy reforms over the years progressed through different phases but interventions remained comprehensive in nature, providing universal access to housing according to needs with a growing reliance on individual involvement and leveraging of enterprise and private sector funds. Housing outcomes produced through the centrally controlled system had less diversity and less inequality than those generally created by a market production and allocation system (Hegedüs and Tosics, 1992; Szelenyi, 1983; Telgarsky and Struyk, 1991). Housing policies were guided by political priorities aligned with the ideological principle that housing was a right to which all citizens were entitled (Kornai, 2000; de Melo et al., 1997). In other words, in all socialist countries a rationing mechanism, rather than the market determined the allocation and structure of most housing. But the breadth of this mechanism was by no means uniform. For instance, housing delivery systems in Yugoslavia, and to some extent Bulgaria, embodied only some of the rationing features noted above, and in varying degrees markets were allowed to operate. Indeed, most countries in the region due to their lower degree of urbanisation marked a major departure from the socialist model of housing provision in its pure form. Even in Albania, one of the most regulated countries, private construction of housing through self-help was ‘business as usual’ in most rural areas and was supported by the state. Furthermore, homeownership in Bulgaria and in parts of Yugoslavia was over 80% under state socialism (Tsenkova, 2000). In Moldova, homeownership in rural areas persisted and the exchange of rental housing in cities was permitted, but the state controlled almost every other feature of housing market operation.

These differences contributed to a less entrenched public role for housing in South East European countries, particularly in the rural hinterland sheltered from the socialist experiments. In summary, the housing system under state socialism had implications for: (1) housing conditions; (2) forms of housing provision and output; (3) tenure structure; and (4) subsidy allocation and housing costs. In addition, due to the central control over planning and investment decisions, the socialist system influenced in a significant way the location and spatial organisation of housing. We consider each of these features in different countries to respond to two essential questions: What was different about the initial housing circumstances in the region? How did the transition process interact with those initial conditions?

2.3.1 Housing Conditions

Two sets of indicators are commonly used to contrast and compare housing conditions – housing consumption (quantity of housing) and amenities (housing quality) (Buckley and Tsenkova, 2001). With respect to housing consumption, the socialist

housing system was often characterised by a paradox – a sector of both subsidy and scarcity (Hegedüs and Tosics, 1992). Subsidies to the housing sector in many socialist countries were often on the order of 3–5% of GNP during the 1970s and 1980s (World Bank, 1995). At the same time, however, there was evidence of housing shortages – long waiting lists and black market prices for rental and owner occupied housing (Dübel and Tsenkova, 1997).

The diagnosis in a study by Sillince (1990a) provided the first comparable quantitative evidence on housing system performance in the region. The data presented in Table 2.1 show that housing conditions, despite their significant improvement in the early decades of state socialism, demonstrate inadequacy, overcrowding and poor access to essential services. South East European countries were worse off compared to Czechoslovakia, Hungary and Poland. Although more than half of the housing was built after 1945, about one third of the dwellings had more than 2 people per room (Bulgaria was a notable exception) and 80% in Yugoslavia and Romania had more than 1 person per room. In Albania the absolute shortage of housing was particularly high given that the population doubled since 1960 while housing output was lower than 10,000 dwellings per year (Schnytzer, 1982).

Similarly, the quality of the housing across the region measured by the number of dwellings connected to piped water and sewer appears to be low. Romania, in particular, had only 12% of its housing connected to modern water supply systems and less than one third of the country's housing stock had indoor toilets (Table 2.1). Research evidence highlighted the challenges of basic provision of these services in Albania and Moldova (Magnussen, 1992; Tsenkova and Dogotaru, 2006).⁷ After the war these predominantly rural countries were poorer and started with a lower level of services in the housing sector. Furthermore, the national averages tend to

Table 2.1 Housing condition under socialism

Country (year)	Percentage of all dwellings built after 1945	Percentage of all dwellings with density greater than 1 person per room	Percentage of all dwellings with density greater than 2 persons per room	Percentage of all dwellings with piped water	Percentage of all dwellings with toilet inside dwelling	Percentage of all dwellings with central heating
Bulgaria (1975)	70.4	60.2	12.4	66.1	28.0	7.5
Romania (1966)	51.0	81.5	27.8	12.3	23.0	–
Yugoslavia (1971)	59.1	83.1	30.8	33.6	29.2	4.5

Adapted from Sillince (1990a, p. 20)

⁷In 1989, for example, 16% of all residential buildings in Albania had piped water (63% in urban areas and 5% in rural) (Magnussen, 1992).

conceal important regional variation, as the data in Table 2.2 indicate. The republics of Yugoslavia had significant differences with respect to level of urbanisation, availability of housing, its services and ownership structure. It appears that the republics with a higher level of urbanisation in general had better services in the housing stock. The housing growth was indeed remarkable within 30 years. The average area per person has doubled in all republics and even tripled in Macedonia, but the differences remained huge between Slovenia (20 m²) and Kosovo (10 m²). Furthermore, housing politics and the move to more autonomy and self-management in the 1970s also influenced the investment in public/socially owned housing with levels in Kosovo and Macedonia half of the national average.

Studies indicate that high levels of investment and new housing production during the 1970s and 1980s in South East Europe no doubt had a positive influence on the housing conditions during socialism. Newly built housing was generally larger, although modest by Western European standards, less crowded, serviced with piped water, sewer and often with central heating. Table 2.3 presents key indicators for the region. Romania and the Soviet Union, with exclusively state run and state-funded

Table 2.2 Regional differences in housing conditions in the republics of Yugoslavia

Republic	Total (000) 1984	Urban (%) 1981	Average area per person (m ²) 1951	Average area per person (m ²) 1981	Dwellings with bathroom (%) 1984	Socially owned housing (%) 1984
Yugoslavia	6,665	49.72	8.7	17.9	54.2	22.8
Bosnia	1,130	40.98	5.8	14.6	48.4	19.8
Montenegro	149	53.43	6.7	15.3	53.0	26.8
Croatia	1,488	52.71	9.8	20.5	59.9	25.7
Macedonia	481	57.56	6.9	16.5	51.7	13.7
Slovenia	636	52.73	10.5	21.6	73.3	32.9
Serbia	1,814	54.69	8.3	18.1	51.2	24.3
Kosovo	259	38.59	6.8	10.6	26.1	11.2
Voivodina	707	54.70	13.0	23.1	54.4	18.1

Adapted from Topham (1990, p. 412)

Table 2.3 Conditions in new housing, 1984

Country	Average useful floor space in newly built dwellings (m ²)	Dwellings with piped water in newly built dwellings (%)	Dwellings with fixed bath or shower (%)	Percentage dwellings with central heating in newly built dwellings (%)	People per dwelling (all dwellings)	GNP per capita (British pounds) 1984
Bulgaria	66.9	98.8	91.4	33.1	2.8	1,591
Romania	57.5	92.0	87.5	—	2.8	3,182
USSR	56.8	89.9	86.9	86.6	3.2	1,576
Yugoslavia	72.5	94.4	89.8	33.6	3.4	1,884

Adapted from Sillince (1990a, p. 15)

housing provision, had smaller dwellings (about 57 m²) with a record high share of these being serviced by central heating in the Soviet Union. Virtually all dwellings had piped water and close to 90% had access to sewer. It is interesting to note that these indicators were almost identical for all countries regardless of their economic position. In terms of GNP per capita Romania was much better off, but this did not seem to affect the provision of new housing in any particular way.

It is important to note that housing conditions – on the basis of square metres consumed and amenities – reinforced the rural/urban divide. Housing was larger and less overcrowded in rural areas, but poorly serviced compared to housing in cities. Many observers indicate that the quality of urban housing on average was much better (Andrusz, 1990; Carter, 1990; Lowe, 1992). Earmarking of planning resources to urban political centres was widespread, particularly since the 1960s. In the Soviet Union, a radical urbanisation strategy was adopted in the 1930s associated with the building of new towns and consequently a higher level of investment in urban economies and housing. This kind of centralism contributed towards regional disparities, and considerable underinvestment in rural areas apparent in the region with the exception of Albania. A direct result of urbanisation was a whole generation of new towns built to accommodate clusters of factories or huge specialised enterprises which provided most of the housing, social and technical infrastructure. A large share of the urban housing, built during socialism was serviced with water supply, sewerage and central heating systems but also publicly provided community facilities, schools, recreation and parks. The demand for services in socialist cities was much greater than the cities' capacity to deliver them. The urban consumer enjoyed certain privileges – housing costs/rents, water, gas, heat, electricity and telephone consumed an insignificant share of the household budget. In fact, these services were very costly to the state and the city, which consequently increased the level of subsidies to support the provision of those public goods.

While the quantity and quality of urban housing was higher, the lack of variety and further standardisation of housing production in urban areas built predominantly with prefabricated apartment buildings effectively limited housing choices. The result was that many more families resided in multi-apartment dwellings as compared to Western European cities, particularly in Bulgaria, Romania and Moldova where this type of construction dominated for decades. The urban growth of the 1960s and 1970s led to the development of high density peripheral housing estates of mass produced housing. Socialist planning generated a surprising uniformity, particularly the standardised *microrajons* for 50,000–80,000 inhabitants, with monotonous 8–16 storey apartment buildings made from precast concrete, as shown in Fig. 2.1.

Furthermore, not only was the type of new housing influenced by state policies and investment decisions, but so was the location.⁸ Perhaps most importantly, as shown by Bertaud and Renaud (1997), the location of housing estates was determined

⁸The unlimited power of the state and municipalities to purchase land and properties, to act as major developers of housing and social infrastructure, and the exclusive control over investment decisions and priorities had a crucial impact over the spatial pattern of socialist cities. Over the years the level of intervention and the commitment on behalf of the state varied in the different countries, but in general urban development was exclusively promoted, implemented and managed by the public sector.



Fig. 2.1 High-rise apartment buildings in the peripheral housing estates of Bourgas, Bulgaria

without reference to land value resulting in inefficient patterns of density and land use allocation.

State policies were much more concerned with new development and expansion and in very few cases targeted redevelopment of existing urban areas. This resulted in high residential densities in the periphery with low density industrial belt in the city centre. In the 1970s efforts focused predominantly on green field housing estates, followed by a period of large-scale redevelopment of urban areas through demolition and replacement of existing structures with high rise prefabricated housing. Although these policies never reached the dimensions of massive slum clearance programmes, the result was striking uniformity of urban housing. More complex strategies evolved since the 1980s, which included area based approaches through the ‘one investor-one developer practice’ (Belgrade), ‘the bulldozer type’ of renewal (Bucharest), as well as sporadic urban renewal activities in the pedestrian zones (Zagreb, Skopje, and Sofia). In general very few resources were directed towards comprehensive efforts to implement city redevelopment and renewal strategies.

These characteristics and differences in the housing conditions have important implications, as we show in the next sections, for the forms of new housing provision, tenure structure and housing costs.

2.3.2 Forms of Housing Provision

New housing in the region was provided through state enterprises, building cooperatives and self-help. Data on new housing construction in Albania (Fig. 2.2) indicate

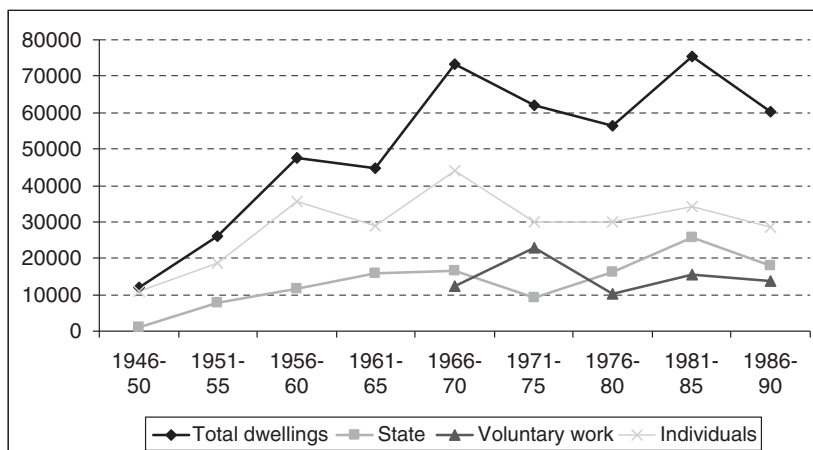


Fig. 2.2 New housing construction by type of investor in Albania, 1946–1990. Source: Statistical Office of Albania, Annual Statistics

substantial growth in the late 1960s and 1980s. Cumulative output within 5-year plans reached 75,360 dwellings. In 1968 the state introduced the urban voluntary programme to boost its own efforts, while urban self-built housing was squeezed. This voluntary labour, organised into brigades through the workplace, was a significant in-kind contribution to state housing production which added 12,000–15,000 dwellings within the 5-year plan. In 1971–75, housing built through voluntary labour was two and a half times the state output. By contrast, housing built by individuals maintained its role and, attaining a level of close to half of all new dwellings, mostly in rural areas.

In Romania the politics of state controlled and state funded housing provision discussed earlier influenced substantially levels of investment and construction over the years, as well as the urban/rural divide. State built housing increased constantly during socialism and in 1989 over 95% of the new housing was built by the state. The systematisation programme, endorsed by the Party Congress in 1972, emphasised the importance of urban areas. From 1976 to 1986 less than 1.5 houses were built per 1,000 in rural areas compared to 12 in urban areas (Lowe, 1992). The share of private sector output declined to 1% in urban areas as indicated in Fig. 2.3. During Ceausescu's rule, the construction of prefabricated housing estates by public works departments – *trust de constructii* – dominated the building programmes. Public construction in urban areas peaked in the late 1970s and early 1980s with an annual production ranging between 139,000–152,000 dwellings. By contrast, new housing production in rural areas constantly declined reaching a level of 10,000 homes.

In the other South East European countries the private sector began to play a more important part since the late 1970s (Carter, 1990; Hegedüs and Tosics, 1992; Turner, 1992). This change can be attributed to several factors. First, there was a growing dissatisfaction with housing conditions in state produced housing. Second, high-rise estates were becoming increasingly unpopular. Third, housing policies

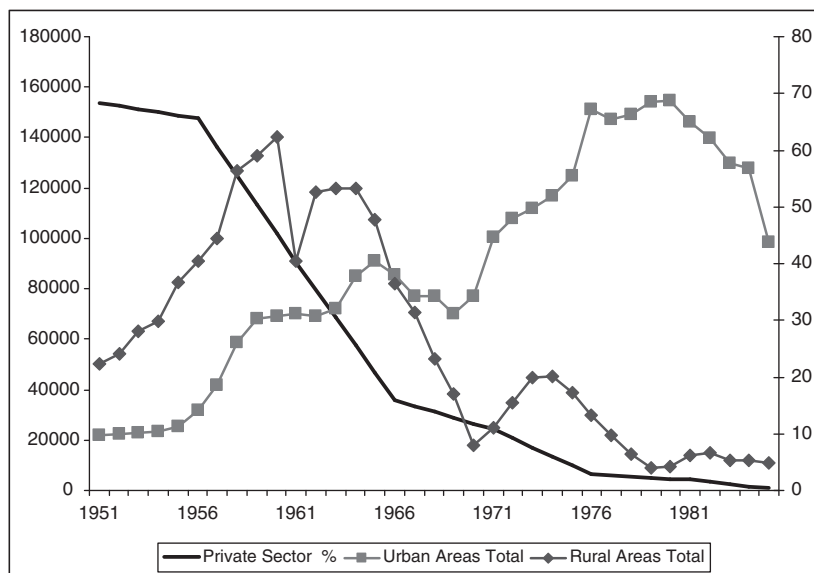


Fig. 2.3 New housing construction by type of investor in Romania, 1951–1981. *Source:* Statistical Office of Romania, Annual Statistics

reflected a more liberalised attitude towards homeownership, which can also be attributed to the overall shortage of state funds for housing investment to sustain high levels of new production. Shifting the burden and the responsibility for housing provision to the individual households and/or enterprises was an economically feasible solution to the growing urban housing shortages. With respect to new housing development, private sector involvement took a number of forms, including cooperative and self-help housing provision, and private responsibility for maintenance and management of owner-occupied housing stock (Dübel and Tsenkova, 1997). Bulgaria, in particular, maintained a very stable level of new housing production through cooperatives in the range of 20,000 dwellings per year (Fig. 2.4). These building cooperatives operated in a more limited form in Yugoslavia and Moldova. The time series data on new housing construction in Bulgaria indicate that the private sector – cooperatives and individuals – dominated housing output till 1975 and during the peak of socialist housing construction provided two thirds of the housing. It is important to note that housing cooperatives were the investors, while housing was built by state construction enterprises.

In reality private ownership and market mechanisms were never excluded from the socialist housing systems of South East Europe. A reliance on limited, controlled and ‘encapsulated’ market solutions, particularly self-help provision, was advocated by leading political forces in all countries. However, the difference in attitude towards the state versus market solutions has varied significantly with Moldova, where the private sector accounted for 40% of new housing construction at one extreme and the former Yugoslavia at the other. Homeownership under state socialism

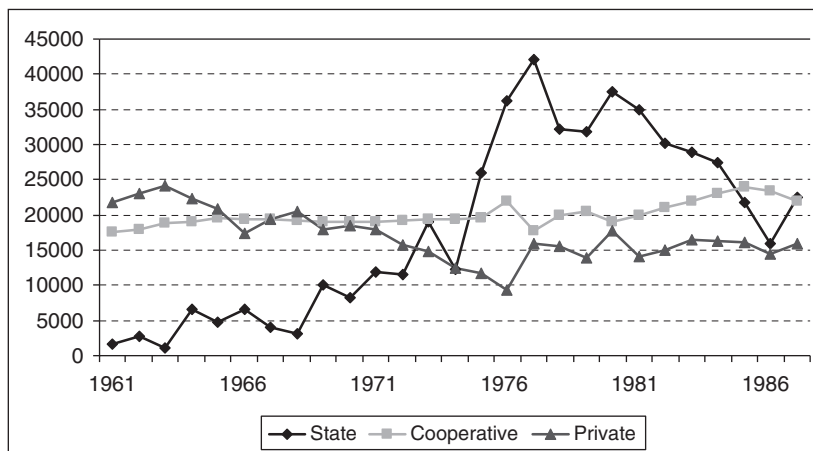


Fig. 2.4 New housing construction by type of investor in Bulgaria, 1961–1989. *Source:* Author's estimates based on Statistical Institute Annual Yearbook, Sofia

has been a perfect example of those nation-specific and diverging experiences of different countries. In general, governments tried to starve the self-help sector through strict regulations on the construction of single-family homes, inadequate access to building materials and limited property rights. Thus, the general policy was to limit its existence to a politically and practically feasible level (Turner, 1992).

In Yugoslavia the move to self-managing enterprises had two important implications: (1) relative autonomy on housing policy implementation; and (2) primary responsibility for the housing of their employees, institutionalised through self-managing housing communities. Housing was provided with funds of the enterprises complemented with national Solidarity Funds. These reforms, however, had a relatively weak impact on relative proportion of housing provided by the private sector, which accounted for 60–70% of the total annual production over the years (see Fig. 2.5). Private sector output was surprisingly stable at close to 90,000 dwellings per year, while publicly directed housing construction was subject to fluctuations and decline since 1980. To some extent this was attributed to the monopolistic position of public housing enterprises which acted both as 'sellers' of apartments to investors (individuals and socially owned firms) and 'buyers' of apartments from construction firms. The monopoly prevented direct contacts between investors and builders and the development of an efficient housing construction based on demand. Being paid by the investors, according to an established schedule without any connection to the services provided, public housing enterprises had few incentives to manage the process efficiently.⁹

Although it hasn't been encouraged, self-help housing provision was particularly important in the rural and urban areas of Yugoslavia. Hegedüs and Tosics (1996)

⁹The trend became visible in the late 1980s when the constructors, as a protective measure against the high inflation, raised their prices and public housing enterprises subsequently passed them on to the final buyer without any intervention (Mandic, 1992).

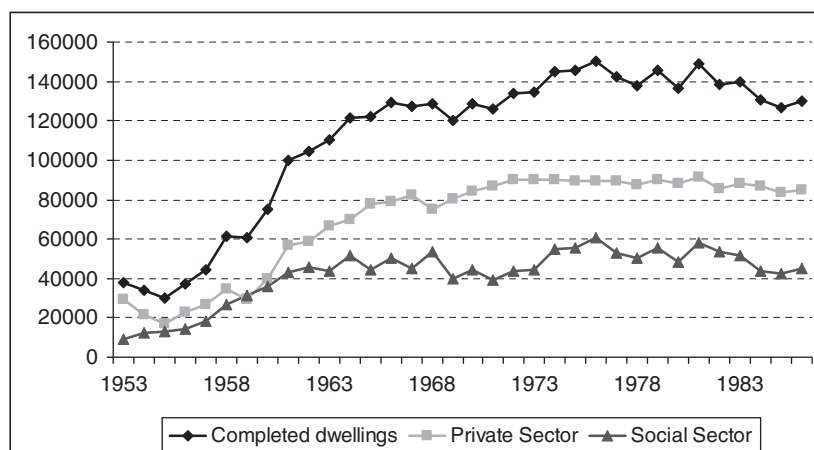


Fig. 2.5 New housing construction by type of investor in Yugoslavia, 1953–1989. *Source:* Statistical Office of Yugoslavia, Statistical Yearbook, various years, Belgrade

consider it as one of the most popular ‘exit strategies’, which allowed individual households to step out of the state controlled housing allocation system and to search for private solutions. Other options included the exchange of private houses and flats and even state-owned apartments. Though transactions were subject to the approval of local authorities, prices in these quasi-market conditions were much higher than the official prices and speculative at best. Money accumulated by households in the shortage economies of socialist countries translated into potential demand for housing within that quasi-market (Kansky, 1976).

Despite the official recognition of the importance of housing construction cooperatives (e.g. in Bulgaria and Yugoslavia) as well as individuals building their own homes, they were discriminated against in getting access to land, housing finance and in negotiating contracts with construction enterprises. Households were restricted to use state construction enterprises, but work on these projects was often not included in the 5-year plans and therefore happened to be a low priority. Often such projects were delayed for years, households had to find alternative ways to supply building materials, contract labour ‘privately’ or become involved in the labour intensive finishing works on a self-help basis.¹⁰ Self-help builders relied extensively on mutual aid groups and the labour of the extended family (Carter, 1986). In summary, the systemic bias against the private sector led to substantially higher housing costs for consumers. Thus, the market that served as a secondary mechanism in the housing provision system, a market that allowed access to privately developed housing, actually increased housing inequalities (Hegedüs and Tosics, 1996; Tsenkova, 1994).

¹⁰In Bulgaria, for example, construction costs in privately promoted housing per square metre were 10–90% higher compared to state built housing. In Yugoslavia some of the main features of private sector production were detached single family housing in rural areas or on the outskirts of cities, often built with unregistered labour, or services of small private firms for specialized work.

2.3.3 Tenure Structure and Property Rights

Socialist tenure structure in the region was diverse, which is reflected in the variation of homeownership levels. Countries such as Albania and Romania had a higher share of state controlled housing; in contrast others, such as Bulgaria, and Yugoslavia, had over 80% of their stock in private ownership (see Table 2.4). The nature of private ownership also varied from country to country; the reasons for this wide variation reflect differences in investment patterns, organisation of production and levels of state support. Within Yugoslavia, for example, several republics – Macedonia and Kosovo – had homeownership close to 90%. Across the region, levels of homeownership were over 90% on average in rural areas, while state-owned housing was mostly concentrated in urban areas. Cities such as Sofia and Belgrade had over 80% private ownership of their housing stock, while Tirana and Bucharest and Chisinau had over 70% of their housing in public ownership (Andrusz, 1990; Hall, 1990; Tsenkova, 2000). Despite the regional variations in the level of homeownership, the state gradually encouraged it, particularly in the late 1970s and early 1980s while retaining control over the access to and exchange of housing. Private renting was non-existent in Albania and Romania, but had a sizable share in Yugoslavia (4.6%). This was mostly pre-socialist housing, 1–2 storey homes in urban areas occupied by extended families and tenants. Rents were centrally determined and were virtually the same as in the public rental sector, but often unreported income and key money was part of the deal. Public rental was essential for the socialist housing system and its share was as high as 40% in Albania and Moldova and 33% in Romania. The tenure grew rapidly in socialist cities since the 1960s. These were mostly apartments owned and managed by state enterprises, or in the case of Bulgaria and Romania municipal companies. In Yugoslavia this was labelled as social ownership with clearly defined occupancy rights for the users of socially owned apartments.¹¹

Table 2.4 Tenure structure under socialism

Country	Year	Homeownership	Public rental ^a	Private rental	Other ^b
Albania	1985	60.0	40.0	–	–
Bulgaria	1985	80.9	15.2	2.8	1.1
Moldova	1986	59.5	40.5	–	–
Romania	1989	67.0	33.0	–	0.1
Yugoslavia	1981	69.4	20.5	5.4	4.6

Source: Author's estimates based on data provided by the National Statistical Institutes

^aIn Yugoslavia this refers to socially owned apartments with tenant occupancy rights

^bOther tenure includes housing owned mostly by enterprises and public organizations

¹¹ Socially owned property belonged to all members of Yugoslav society and it was the society which delegated the right of disposal over such socially owned property to the Yugoslav Federation. Social ownership existed over urban and agricultural land, the means of production in socially owned enterprises, and the occupancy rights of socially owned apartments. Urban land was in social ownership.

The socialist housing systems in the region did not eliminate private ownership of residential property, but consumption was limited to one dwelling per family and/or state approved norms regarding the size of living space per household member.¹² With respect to land, policies were different, particularly in the urban areas. In Bulgaria land that privately owned houses were built on always remained in private ownership, in Yugoslavia it was socially owned, while in Albania and Romania it was transferred in state ownership. Notwithstanding these differences, land had no market value and if it was transferred as part of the housing sale, its price was administratively determined and did not reflect location or the quality of services in the residential areas (Bertaud and Renaud, 1994).

The lines between ownership and rental, private and public, were often fuzzy under socialist systems. Housing was a constitutional right, but 'the bundle of rights' was limited to the personal consumption of housing, while excluding the privilege to derive income from the sale or rent of owner-occupied housing (Marcuse, 1996). In principle homeownership under state socialism was associated with the following rights: guaranteed lifetime occupancy, the right to inherit or transfer housing to family members, provided that they were registered with the local housing authority, and the right to rent parts of the unit at controlled prices. Homeowners could transfer or sell their property (land and housing) with the approval of the local authorities or local soviets, but only at a centrally pre-determined price. In some countries (Bulgaria and Romania) households had to arrange for the disposal of a second dwelling acquired through inheritance or marriage.¹³ There was virtually no residential mobility in the region; once allocated, housing was rarely exchanged or sold. Differences existed between owners of single-family housing and cooperatives. Homeowners in building cooperatives in Bulgaria had ownership over the units, as well as a share of the common space, roof, and land. However, in the new housing estates state-built flats were often sold to households without exclusive ownership over the land. This was very much the practice in Romania and Yugoslavia.

In the public sector tenants had substantial rights including: guaranteed lifetime occupancy, no eviction without compensation with another unit and the right to inherit or transfer housing to family members, provided that they were registered with the local housing authority. In Bulgaria, Romania and Moldova tenants were allowed to exchange flats. The allocation of apartments was based on a number of eligibility criteria, upon which a priority list was established. The eligibility criteria included generally housing need/overcrowding indicators, number of household members, disabilities/health conditions, etc. (Morton, 1979; Sillince, 1990b)

¹²In Albania, privileged categories entitled to above-norm housing space included ministers and deputy ministers, party secretaries, heroes of socialist work, artists and writers as well as professors and doctors of science (Sjoberg, 1992). In Moldova, some of these privileged categories included war veterans and party officials.

¹³Home ownership in Romania was encouraged since 1970 through sales of state built apartments on attractive terms with subsidized costs and subsidized loans, although prices differed by size and not location (Turnock, 1990).

In Yugoslavia, the employee's position, years with the enterprise as well as the social and economic position of household members were also important considerations (Burns et al., 1981). As the latter became more influential over time, evidence confirmed that peasants and unskilled workers resorted to building their own housing and operated largely outside of the system, while the middle class queued for public social housing (Seferagic, 1986).

2.3.4 Housing Costs and Affordability

The provision of housing, as well as its maintenance and management, was mostly funded through the state budget with a substantial amount of enterprise funds being leveraged since the mid-1970s. In Yugoslavia, these funds were complemented by resources from the Solidarity Fund, which mobilised from 4 to 6% of employee's net salary for housing construction. Private investment increased continuously fuelled by long-term housing loans introduced in all South East European countries. Romania even provided short-term loans for the required down payment.

The socialist housing policy with respect to subsidies was extremely costly to the state budget, as the system was built on maintaining low housing costs to consumers and a corresponding low wage level. The level of subsidies to cover the gap between the nationally regulated, low house prices and or rents and the actual construction costs was constantly growing. While it is difficult to obtain comparative data for countries in the region, housing subsidies were estimated to account for 10–14% of the total government budgets (Hegedüs et al., 1996). Homeownership was subsidised in a number of ways. First, the interest rate on mortgages was low, between 2 and 10%, and maturity was over 20 years (see Table 2.5).¹⁴ Second, building costs were reduced by production subsidies transferred to state-owned enterprises from the central budget. Housing was sold to individuals according to state tariffs with little variation of the price per square metre. Third, utility charges (water, sewerage, heating, electricity and gas) were heavily subsidised at rates of between 70–80%; on average national budget subsidies for utilities represented about 5% of GNP in 1990 (Dübel and Tsenkova, 1997).

As a result of this substantial subsidy input and macroeconomic regulation of prices, monthly housing costs in the owner-occupied sector (utilities and maintenance) were less than 4–5% of household income (see Table 2.5). Homeownership was universally affordable, however access was problematic and the rationing system was plagued with problems and long waiting times. In Moldova, for example, a third of the households were registered in the waiting lists in Chisinau. In addition to grave concerns about access in some urban areas, the low costs contributed to

¹⁴Loans for single family construction in rural areas were available at 6% to be repaid over 25 years, loans for cities were at 3% repaid over 5 years (Magnussen, 1992). Land allocation in urban areas was limited to 150m² and 200m² in rural areas.

Table 2.5 Housing costs under socialism

Country	Year	Housing costs ^a homeownership (%)	Housing loans/mortgages	Housing costs ^b public rental (%)	Housing costs other tenure ^c (%)
Albania	1985	2–3	Rural: 6% interest; 25 years maturity. Urban: 3% interest; maturity 5 years	1	–
Bulgaria	1985	5	2% interest; maturity 30 years	4.5	25–30
Romania	1989	4.5	5% interest; maturity 15 years	3.7	–
Yugoslavia	1981	2–7	4–10% interest; maturity 20 years	5.4	4.6

Source: Author estimates based on country monograph data in Turner et al. (1992)

^aHousing costs exclude mortgage payments

^bHousing costs include rent and utilities

^cEstimates for private rental in large urban centres

distribution inefficiencies and overconsumption at the end of the family life cycle, which in turn exacerbated housing shortages.

Rents and utilities in *public sector housing* were less than 5% of the household budget. Being a state tenant and/or the occupancy holder in social housing was economically much more attractive than being an individual owner who bore the costs of mortgage repayment. As a result of substantial subsidy input and macroeconomic regulation of prices, housing costs in the rental sector did not ensure any cost recovery and in most cases provided less than half of the costs for regular maintenance and management. Provisions for accumulation of funds for capital repairs existed in a limited number of countries (e.g. Bulgaria and Yugoslavia), but these were rarely enforced. In Moldova, rents were set in 1934 and never adjusted to reflect even remotely the costs of housing management. In Albania these amounts were trivial.¹⁵ A common rent policy across the region was that rents were set without any reference to the standard of housing, usually at the national level. State, socially-owned, or municipal enterprises normally provided additional funds for maintenance out of their budgets, but this was not a priority and the housing quality gradually deteriorated. In the 1980s Yugoslavia introduced modest reforms in the rental sector. Municipalities were given legislative power to establish the minimum and maximum amount of rent (Topham, 1990). In conformity with the new policy, the self-governing public housing enterprises adopted some economic criteria for the management of apartment buildings attempting to tie rents to service and maintenance costs.

¹⁵In Albania families living in state housing paid 2–3% of their monthly income in rents, while payment for utilities and other services was symbolic (Schnytzer, 1982).

Contrary to expectations, the situation with underfunded maintenance was very similar in the privately owned housing. Properties had inferior quality and deferred maintenance especially in the older parts of the city. Owners had no incentives to invest; in addition there was very little support in terms of long-term finance/loans for renovation. Shortages of contractors, equipment, and materials also aggravated the problems. Research shows that despite the generally poor state of the common areas in multi-family housing, individual apartments and properties were well maintained and kept in good condition.

2.4 Crisis and Transition in the Housing System

The early 1990s marked a period of housing transformation in South East Europe. Despite limited information on some or, indeed, many aspects of housing sector reforms, it can be argued that most countries in the region implemented significant measures to transform their centrally-planned housing systems (Dübel and Tsenkova, 1997). Much of the reform efforts, just like in other transition countries, focused on the radical decentralisation of state responsibility for housing provision, privatisation of the housing stock, restructuring of housing supply, development of new housing finance systems, and finally – reform of the rental sector (Baross and Struyk, 1993; Hegedüs et al., 1996). This was not necessarily a linear progression, as the following chapters will demonstrate. The reforms manifested a continuous conflict between politics and economics. Housing policy, being context dependent, was constantly adjusted to follow the pattern of major political and economic reforms. The argument developed here is that reform strategies, despite their similarity throughout the region, and given the legacy of the different housing systems in which they were implemented, produced different sets of outcomes. The initial housing conditions were different – in terms of quantity, amenities and tenure structure – and the balance of state/market intervention was different across the region. Since the 1970s, some divergence could be observed in the way the socialist housing model worked in Albania, Bulgaria, Romania and Yugoslavia. The divergence, and in particular the institutionalisation of the socialist housing model in each country, had a considerable impact on political choices and reform strategy implementation. While the analysis in the following chapters will explore these issues in more detail, the direction of change and transformation is summarised in the matrix below (Table 2.6).

We need to bear in mind that the housing systems in these societies are still in a state of flux – constantly changing and developing – and it is important to analyse them in their dynamics. In the general restructuring of the socialist housing system along market principles, the role of the state has declined, the administrative distribution of housing has been replaced by market allocation. More importantly, reforms have dramatically expanded property rights of home owners, permitting free property transactions at market prices. In response to market demand, speculative house building and the property development industry have become the new driving forces behind housing market dynamics. Housing and land markets, as a new reality,

Table 2.6 Transition in the housing system

Indicators	Socialist system	Market-oriented system
Housing stock	Mass produced housing in high rise, high density apartment buildings located in peripheral housing estates. Single-family housing in rural communities	More diverse quality and location of the housing stock. Newly built housing in the form of small scale, medium density projects
Role of the state	The state has exclusive control over the housing system including the production, allocation, and maintenance of housing;	Focus on regulation of the provision system, enabling the operation of housing markets, phasing of subsidies. Encouragement of home ownership mostly through privatisation of public housing
Organisation	Centralised distribution of resources – land, materials and labour – through the planning system, planning targets determine the volume and distribution of new housing production	Private investors (firms and individuals) determine the volume of new housing production
Access and availability	Access based on need, controlled by state authorities through waiting lists maintained by local soviets, municipal authorities and state enterprises. Chronic shortages	Housing is allocated through the market depending on consumer preferences, choices and ability to pay. Shortage of affordable housing
Production	Most of the urban housing is produced by state construction enterprises; units are standardised, dominance of prefabricated concrete structures. Single-family housing is produced by members of the extended family or through semi-private arrangements with contractors. Housing costs are higher; discrimination in access to land and materials exists	State construction firms account for a modest share of housing production. Developers and individual families decide on the type of housing to be built in response to prices and demand. New private firms establish a considerable market presence
Land	Land for residential development is allocated by planners and local officials, land costs are negligible	Land is acquired through the market, or exchanged by private landlords for a share in the new housing development
Maintenance	Extreme monopolisation of housing maintenance by state/municipal organisations, deferred maintenance carried out with substantial delays, underinvestment affects housing quality	Contracts for maintenance and repairs are determined on a competitive basis and carried out by both municipal enterprises and private firms

(continued)

Table 2.6 (continued)

Indicators	Socialist system	Market-oriented system
Tenure structure	Smaller share of homeownership in urban areas, very high rates of owner-occupation in small towns and rural areas.	Following large scale privatisation, higher shares of home ownership in urban and rural areas.
Housing finance	Sizable share of public/social rental housing in cities Financing for purchase or construction of apartment units is available; households receive significant subsidies through low-interest mortgages. Lending to families for housing construction of single-family units (usually in small cities or rural areas) limited in most countries until the 1980s	Insignificant share of public rental housing, emerging private rental mortgages are offered mostly through commercial banks. High interest rates discourage borrowing, some experiments exist with mortgage instruments adjusted to the unstable environment
Subsidies	Housing is subsidised through nationally regulated and uniform prices of the dwellings, low mortgage rates and utility costs. Rents in public/social housing are not adjusted to allow cost recovery	Various subsidies exist mostly in the form of mortgage interest and grants to support homeownership.
Prices	Nationally controlled, uniform and stable house prices	Cost recovery adjustment in rent policies, coupled with limited demand-based assistance to poor households
Affordability	Housing costs are low in the range of 2–5% of the household budget	Diverse structure reflecting location, type and quality of housing. Unstable and immature market, house price inflation Urban households experience major affordability problems; access to homeownership is limited to a small segment. Tenants in public housing face rent adjustments and uncertainty

have altered the existing forms of housing provision with private investment and production becoming the norm. The deregulation of prices, coupled with the elimination of supply- and demand-based subsidies have lead to significant affordability problems in the home ownership sector which is the dominant, if not the only tenure type.

Chapter 3

Political, Social and Economic Transitions

3.1 External Factors Influencing the Performance of Housing Systems

3.1.1 *The Political Transition*

South East European countries have experienced some economic growth and major progress in advancing their structural reform agenda in the last decade. The growth trajectory across the region has been uneven, however countries have been able to maintain macroeconomic stability and sustain political reforms towards democratic governance. The political landscape today is diverse underpinned by widespread political rights to participate in multiparty elections and a range of civil liberties, which have taken root in the region. Within the past decade, the countries in South East Europe have been beleaguered with military, economic, and political crises including the pyramid schemes of Albania, the Kosovo/UNMIK conflict, and the serious debt burden of Serbia and Montenegro (European Commission, 2004). These external and internal shocks have impacted neighbouring countries through influxes of refugees, disruptions in transport and trade, and loss of investor confidence. Reportedly today civil unrest has been overcome and the political balance has allowed economic growth and some regional cooperation. However, in Bosnia and Herzegovina, Serbia, Montenegro and Croatia, over one million people are still without a permanent home after they were displaced internally or across countries during the years of conflict.

Each country had its own political pathway towards democracy charted by a series of events that marked historic transformations from state socialism. Albania's first democratic elections in 1991 were the end of its economic and political isolation. Frequent elections that followed accompanied major economic and political crises leading to low levels of confidence in major institutions: political parties, the legislature, ministries, and the courts. In Bulgaria the first democratic elections at the end of 1991 ushered a coalition reform government. A series of short-lived governments presided over challenging economic reforms resulting in the return of the former King Simeon Saxe-Coburg-Gotha to power as a Prime Minister in 2001.

Romanian politics went through similarly turbulent times after the long-standing authoritarian regime of Ceausescu was brought down. The *1991 Constitution* proclaimed Romania as a democratic and social republic with a pluralist multi-party system. Moldova's transition to democracy was initiated in 1990 by a former Communist Party official. Moldova declared its independence from the Soviet Union in August 1991. The early years of democracy were impeded by an ineffective Parliament, the lack of a new constitution, and unrest in the Transnistria region.

While these were essentially peaceful transitions, mapping a lengthy roadmap to democracy and markets, the break up of the Yugoslav Federation was remarkably different. The Socialist Federal Republic of Yugoslavia as a federation of six republics existed till June 1991. Following the fall of communism in the rest of Eastern Europe, each of the republics held multi-party elections in 1991 (Hayden, 2000). Slovenia and Croatia were the first to declare their interdependence. A *Parliamentary Declaration of Sovereignty* in September of 1991 established the former Yugoslav Republic of Macedonia as an independent state. However, the Serbs in Croatia refused to accept a status of a national minority and established the Republic of Serb Krajina (Fischer, 2006). As conflicts escalated, war broke out in the fall of 1991.

The politics in Bosnia and Herzegovina were far more complicated and divided along ethnic and religious lines. The government of Bosnia and Herzegovina held a national referendum on Bosnian independence in March 1992, largely boycotted by the Bosnian Serbs. Following the referendum, the republic's government declared its independence while the Serbs immediately declared the independence of Republika Srpska. War followed. The signing of the General Framework Agreement for Peace in Bosnia and Herzegovina, the *Dayton Peace Agreement* (DPA), in December 1995 marked the end of the war. The DPA was an *internationally* brokered peace agreement, signed by representatives of the main Bosnian parties, Bosniaks, Serbs and Croats (Cohen, 1997). It introduced an international body responsible for the civilian implementation of the peace settlement, the High Representative for Bosnia and Herzegovina.¹ The DPA provided a new Constitution for Bosnia and Herzegovina, which establishes two Entities: (1) The Federation of Bosnia and Herzegovina (FBiH); and (2) The Republika Srpska (RS); within one unified, internationally recognised, whole Bosnia and Herzegovina (BiH) (Silber and Little, 1997).

Another source of military conflict in the region was Kosovo, where throughout the 1990s the leadership of the Albanian population had been pursuing tactics of non-violent resistance to achieve independence for the province. In 1996, radical Albanians formed the Kosovo Liberation Army which carried out armed actions in the southern Serbian province. The Yugoslav reaction involved the indiscriminate use of force against civilian populations, and forced many ethnic Albanians to flee their homes. In the early months of 1999, NATO bombarded Serbia and Montenegro

¹The Office of the High Representative is the final authority to interpret the agreement on implementation of the peace settlement. The DPA provides for a Human Rights Commission and a separate legal institution dealing with property: the *Commission for Displaced Persons and Refugees* with the exclusive mandate to restore property rights to the pre-war lawful possessors (UN-HABITAT, 2005).

for more than 2 months, until Milošević's government withdrew its forces from Kosovo. The province has been governed by peace-keeping forces under the UNMIK administration since 1999.

The Federal Republic of Yugoslavia, established in 1992, existed as a short-lived federation of the two remaining republics of Serbia and Montenegro (including the autonomous provinces of Vojvodina, Kosovo and Metohija) for a decade (Woodward, 1995; Yannis, 2004). It was followed by The Union of Serbia and Montenegro in 2003, which was officially abolished 3 years later when Montenegro and Serbia respectively declared their independence.² Regime changes in Serbia and Montenegro established basic democratic political and market economic institutions with significant delays (Allcock, 2000). The rule of law reportedly is compromised by pervasive corruption and ineffective judges and prosecutors. The state's ability to provide public order, maintain infrastructure, and deliver services is improving, but it remains hampered by low revenues and shortcomings in basic governance. In most countries in South East Europe, political regimes have moved from right to left and then back again, with various nuances of the neo-liberal agenda for economic and social change. In some countries the economic shocks have produced 'reform fatigue,' making the population resistant to further changes. Although both right-wing and left-wing governments have followed an economic path of measures to increase competition, market liberalisation and de-regulation, their social policies tend to differ. These differences no doubt create a diverse framework for implementation of urban policy at the local level.

Despite progress in political stability, a major challenge in the region is to build strong public institutions capable of providing the public goods needed for a functioning market economy, as well as to improve public sector management, and address organised crime and corruption. Progress in this field will be essential for effective legal and institutional framework and economic development. It should be acknowledged that the reform process in Bulgaria and Romania is much more advanced; these countries became members of the European Union in 2007.

3.1.2 The Economic Transition

South East Europe is a diverse region of 60 million people. In the 1989–1995 period countries in the region underwent structural reforms associated with privatisation of their centrally-planned economies, as well as banking and financial reforms. The adjustment of national economies on market principles, the restructuring of state enterprises and collapsing trade in the former Soviet block considerably affected the macroeconomic situation. During the early 1990s all countries in the region experienced a significant decline in economic output, double digit inflation (and hyperinflation), rapidly increasing unemployment and significant decline in

²On May 21, 2006, close to 86% of eligible Montenegrin voters turned out for a referendum on the independence of Montenegro from the State Union of Serbia. They voted 55.5% in favour of independence, 0.5% higher than the threshold set by the European Union for formal recognition.

living standards (EBRD, 2004; European Commission, 2004). The share of long-term unemployment was alarmingly high in Bulgaria and Romania, countries that embraced more rapid economic reforms. In addition, the past decade of military conflict and political instability has left the region with a legacy of inadequate growth and growing poverty, particularly in the countries affected by internal displacement processes.

The economic landscape today is rather diverse with an average income per capita ranging from US\$460 in Moldova to US\$4,640 in Croatia. Data on GNI per capita demonstrates significant inequality across the region. The average regional GNI per capita in 2002 was about US\$2,200 (Table 3.1). Romania and Serbia and Montenegro have the largest resources, both in terms of land and human resources. Figures 3.1 and 3.2 present these indicators including share of regional GDP for each of the eight countries using 2002 data. Romania is by far the largest country in the region with 38% of the population and 39% of the regional output of US\$113.5 billion.

Table 3.1 Land, population and economic size

	Total area (1,000km ²)	Population, 2002 (million)	GDP, 2002 (current US\$ billion)	GNI per capita, 2002 (Atlas US\$)
Albania	28.8	3.2	4.8	1,380
Bosnia and Herzegovina	51.1	4.1	5.2	1,270
Bulgaria	110.9	8.0	15.6	1,790
Croatia	56.5	4.4	22.4	4,640
FYR Macedonia	25.7	2.1	3.7	1,700
Moldova	33.9	4.3	1.6	460
Romania	238.4	22.4	44.5	1,850
Serbia and Montenegro	102.2	10.7	15.7	1,400
Total	647.5	59.2	113.5	

Source: World Bank (2003): World Development Indicators, 2003

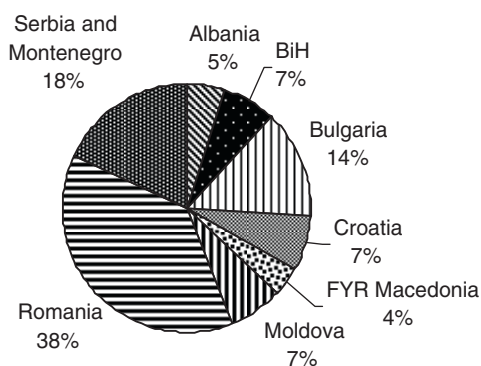
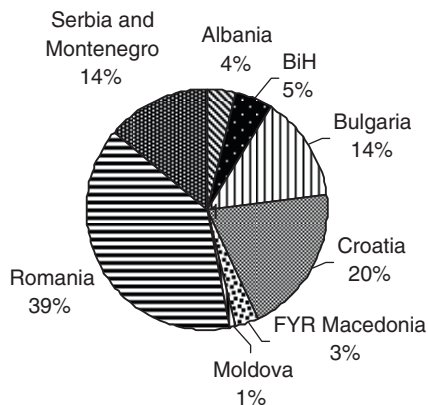


Fig. 3.1 Regional distribution of population, 2002

Fig. 3.2 Regional distribution of GDP, 2002

Countries contribute differently to the regional economy due to different levels of economic development, which translates into different levels of GDP per capita. Former Yugoslav Republic of Macedonia is the smallest with 4% of the population (and territory) and 3% of GDP. Croatia is a notable exception with a significant mismatch between relative share of human resources and economic performance. These crude benchmarks indicate the overall competitiveness of the Croatian economy and its growth prospects, while in the case of Moldova – these are signs of poor performance.

On the positive side, economic performance over the past few years suggests that South East Europe is firmly on the recovery path. For the region as a whole, GDP growth is converging around 5% per year, well above the average in the European Union (Fig. 3.3). Some of the fastest growing economies today, like Former Yugoslav Republic of Macedonia and Serbia, in fact have had the worst overall performance in the last decade. After a decade of conflict, stagnation and economic decline, Albania is the only country with GDP higher compared to the level in the early 1990s, while Croatia, Bulgaria and Romania are pretty close to the pre-reform level (ECE, 2004). The other countries are still grappling with the transition recession and high budget deficits. Large inflows of aid have been critical for this economic recovery, particularly in countries affected by the war in 1995.

Significant progress has also been made in reducing inflation. Albania, Bosnia and Herzegovina (BiH), Croatia and Former Yugoslav Republic of Macedonia have maintained single digit inflation over the past 4 years. The situation in Romania, Serbia and Montenegro is more problematic with rates as high as 13% and 16% in 2003 (down from 20% in 2002, Fig. 3.4). The downward trend in inflation has continued reaching an average of ~7% for the region in 2004 (EBRD, 2004).

The importance of the private sector, dominated by small and medium-sized enterprises, is growing in all countries. Private sector share in GDP exceeds 65% in Romania, Albania and Bulgaria (Table 3.2). Privatisation of state enterprises, banks and services has pushed these shares in Croatia and Former Yugoslav Republic of Macedonia over the past 2 years. Foreign inflows, although relatively modest compared to the other transition economies, play a crucial role in providing a source of finance for new investment. In Croatia, for example, cumulative foreign direct

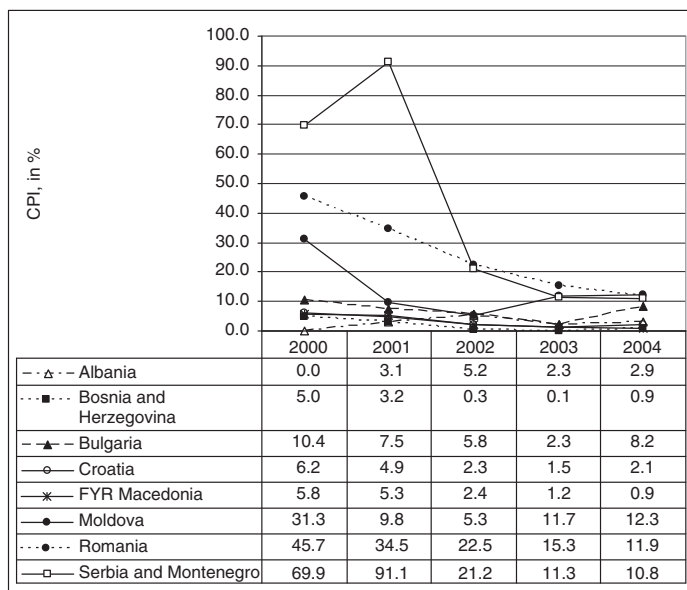


Fig. 3.3 Regional GDP growth, 2000–2003. *Source:* World Bank Country Office Sarajevo (2003)

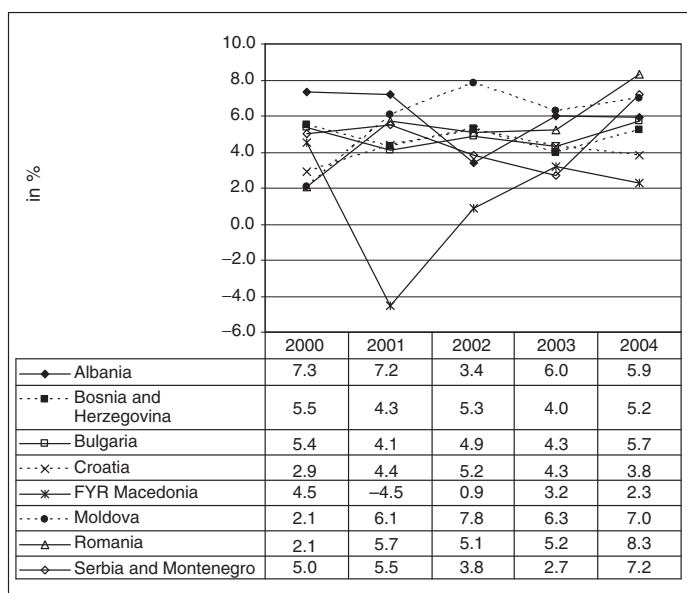


Fig. 3.4 Regional trends in inflation, 2000–2003

Table 3.2 Major macroeconomic indicators in South East Europe

	Private sector (2002) share in GDP ^a	FDI (Euro) ^b 1997–2003	FDI (2002) ^b per capita	Unemployment % (LFS) 2003	Informal economy % GDP ^c
Albania	75	112	36	14.0	33.4
Bosnia and Herzegovina	45	147	37	40.0	34.1
Bulgaria	70	–	–	18.0	36.9
Croatia	60	1,129	254	15.0	33.4
FYR Macedonia	60	137	68	30.0	45.1
Moldova	50	–	–	–	45.1
Romania	65	–	–	9.0	34.4
Serbia and Montenegro	40	405	50	15.0	29.1

^aEBRD (2004)

^bEuropean Commission (2004)

^cData refer to 2001; estimates by Schneider (2002)

investment per capita is eight times higher than the rates in Albania or Bosnia and Herzegovina. Annual foreign direct investment flows were estimated at 4% of the regional GDP in the period 2000–2002. Although recent years have seen an improvement in the investment climate, businesses perceive access to finance to be problematic and the legal environment less conducive to business development.

It should be noted that countries in the region are at different stages of development and reforms in Kosovo/UNMIK are in their initial stages (see Box 3.1). The state still accounts for a relatively large share of economic activity due to delays in industrial privatisation, particularly in Bosnia and Herzegovina, and Serbia and Montenegro. A characteristic feature is the size of the informal economy in South East Europe, which according to some estimates accounts for more than one third of the GDP in most countries. In Moldova and Former Yugoslav Republic of Macedonia this share is as high as 45%.³

The economic restructuring in the region has proceeded with major shifts in economic activities – from manufacturing to service based economies. In addition, as a result of state enterprise privatisation, loss of traditional markets and lower output, unemployment has escalated and is one of the highest in Europe. Even if the existence of large informal markets is taken into account, the level of unemployment is higher than 15% with the exception of Moldova and Romania. In Bosnia and Herzegovina as well as in Kosovo/UNMIK unemployment exceeds 40% (Table 3.2). Although there is no consistent pattern concerning the relationship between gender, age and unemployment, evidence suggests that the younger generation experiences disadvantages in the labour markets and longer-term unemployment (Reinermann, 2003; World Bank, 2002).

³ A broad definition would encompass both legal and illegal activities. The former includes behaviour that would be legal, if it were reported to the authorities and taxes and other charges paid. The latter would include smuggling of goods and people, fraud, prostitution, organised crime, possibly involving barter rather than monetary transactions (Schneider, 2002).

Box 3.1 The Impact of the Crisis in Kosovo/UNMIK

After the devastating 1999 conflict and outbursts of violence, the gradual transfer of competencies from the UN to the Kosovo Provisional Institutions for Self-Government (PISG) in 2002 seemed to mark the beginning of a period of normalisation in Kosovo. PISG and the UNMIK jointly launched in December 2003 the *Standards for Kosovo*, which set a clear benchmark in terms of governance and treatment of ethnic minorities. PISG must implement the *Standards* and progress will be reviewed by the UN Council in 2005.

The political conflict has had devastating effects on Kosovo's economy. The GDP per capita is the lowest in the region (658 euros) and 61% of the households report less than 200 euro per month. Growth is mainly driven by foreign assistance (close to 50% of GDP in 2002), remittances from abroad (30%) and public spending. Unemployment, which reaches 47% (69% among those aged 20–24) is a major concern.

Many Kosovars still live in makeshift tents and temporary housing outside cities. Close to 30% of the housing stock was badly damaged in the war. The harsh economic conditions, the damage of infrastructure and housing has caused massive migration to cities in search of shelter and jobs. Pristina, for example, increased its population from around 250,000 to 600,000 people.

Source: Registra, Analystas and Imantra (RAI, 2004b)

3.1.3 *The Social Transition*

These economic developments have resulted in rising income inequality, social distress and growing insecurity across the region. Due to structural and macroeconomic changes, labour market adjustment has proceeded through wage differentiation, changes in sectoral employment patterns (shifts from industrial to service jobs) and unemployment. The socialist system had a more egalitarian income distribution and tolerated lower economic growth for the sake of avoiding income inequality. Not surprisingly, an attribute of the transition process was income polarisation, with a ratio between the lowest and the highest income quintile increasing from 0.27 in the early 1990s to 0.42 in 1999 (Buckley and Mini, 2000).

While at the start of the reform poverty in South East Europe did not exist, today the share of poor people is alarmingly high in Romania (34%) and the Republic of Moldova (58%). Figure 3.5 shows the most recent estimates of the incidence of poverty in each of the countries according to the most recent *World Bank Poverty Assessments*. The move towards market economy and democracy has failed to deliver uniform benefits to all countries in transition and/or to all social groups (Government of the Republic of Macedonia, 2000). It is widely acknowledged that the second generation of policy reforms is driven by a more sober reflection that market failures need to be addressed in a more efficient way and that the social protection of vulnerable groups is perhaps the most important aspect of public policy intervention (Tsenkova, 2004b; World Bank, 2002). Groups at risk are long-term

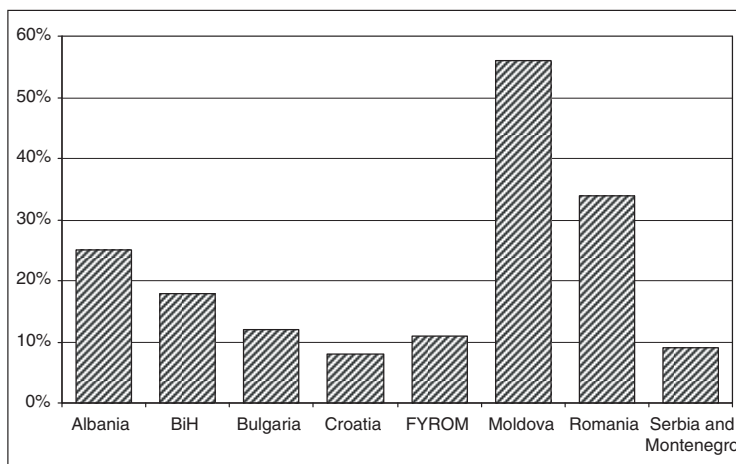


Fig. 3.5 Poverty in the region. *Source:* World Bank Country Office Sarajevo (2003)

unemployed, large or one parent families, people with low education, also increasingly ethnic minorities, with particularly deep poverty pockets among Roma communities. Some of the common drivers are unemployment, regional inequalities and inadequacy of the social protection systems.

In addition to the social challenges associated with the economic adjustment and system change, countries in the region have experienced a major social crisis. The break-up of the former federation of Yugoslavia led to military conflict and violence in the Balkans. War-affected countries have suffered major economic and social shocks with long-term divisions in society, often along ethnic lines (United Nations Development Program [UNDP], 2003). The number of refugees has grown rapidly in the last decade creating significant social challenges. Displaced people as a result of conflicts in Bosnia and Herzegovina are estimated to be 2.5 million and in Kosovo/UNMIK alone over 1 million. Notwithstanding the social stress in war affected countries, population growth in the region has remained modest since the start of the transition and stands at 0.5%. Albania is a notable exception with rates of growth in the range of 1% after the initial exodus in the early 1990s (Fig. 3.6). Bulgaria, Moldova and Romania have experienced years of negative population growth, a result of emigration, lower reproduction rates and responses to economic hardships.

Another important aspect of the social transition is associated with urbanisation and the process of urban change in the region. South East European countries have the lowest urbanisation rates in Europe. The average level of urbanisation in the region is 55%, much lower than the EU average of 80%.⁴ Bulgaria and Former

⁴There is a strong link between urbanisation and levels of economic and human development; globally countries with rates of urbanisation above 70% have well developed economies and higher Human Development Index (UNDP, 2003). These patterns are not necessarily consistent in countries in transition where some might have high urbanisation levels but low levels of economic development (see Buckley and Tsenkova, 2006, for further elaboration).

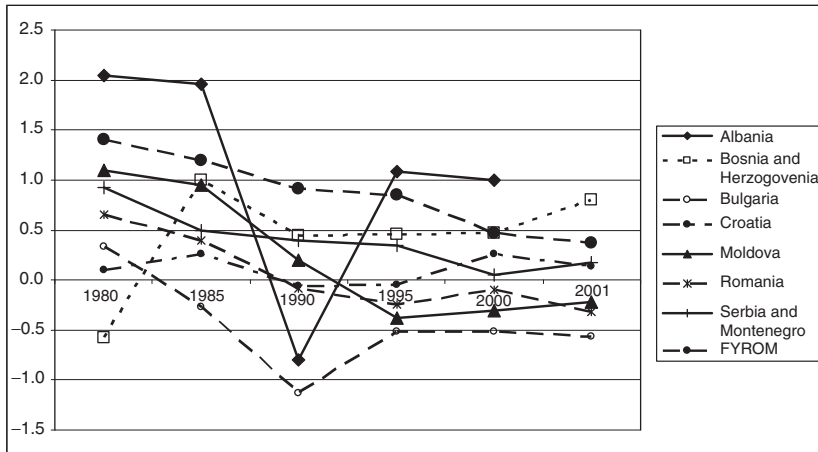


Fig. 3.6 Regional trends in population growth, 1980–2001. *Source:* Author’s estimates based on Council of Europe (2003a) demographic data.

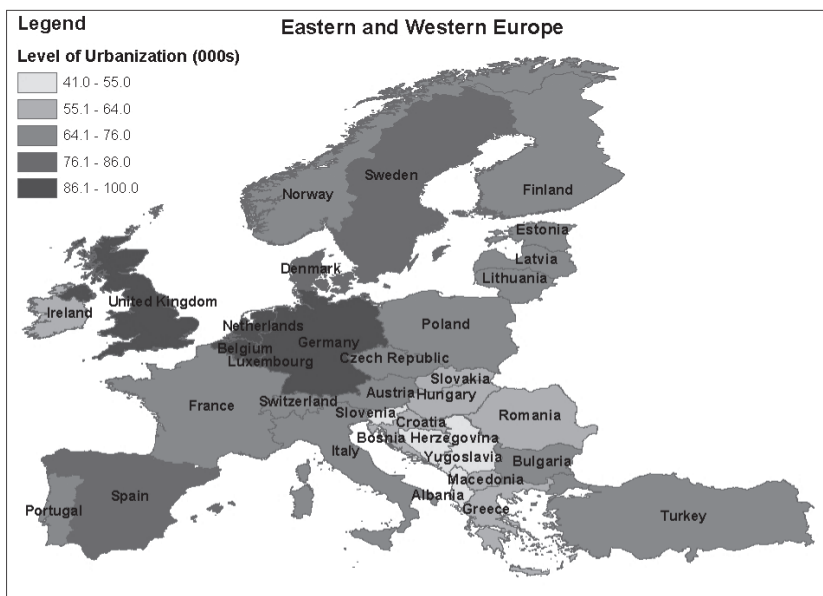


Fig. 3.7 Urbanisation in Europe, 2002. *Source:* Based on data from UN Population Projections, 2003

Yugoslav Republic of Macedonia have the highest concentration of urban population exceeding 62%. Figure 3.7 maps these patterns across Europe and the region.

With the exception of several capital cities – Bucharest, Belgrade and Sofia with population over 1.2 million, the main cities in the region tend to be under 800,000 with medium densities, and relatively stable population (growth rates under 1%).

Tirana (Albania) and Pristina (Kosovo) are notable exceptions where the population has doubled due to migration. Close to 45% of the urban population in the region lives in medium-sized cities with population ranging from 100,000 to 200,000 (UN-HABITAT, 2007). The total urban population of 32.5 million is projected to grow in the next 15 years, perhaps due to delayed urbanisation in most of the South East European countries. As the data in Table 3.3 indicate, Albania, Bosnia and Herzegovina are the countries with projected annual urban growth in the range of 2%. In demographic terms, the region is rather diverse. The typical aging of the population observed in Europe is certainly a major trend in countries such as Bulgaria, Croatia and Romania, where the share of the population over 65 years is closer to the European Union average. Most of the other countries, however, have a relatively young population with the share of children (0–15) being one third of the population in Albania, Bosnia and Herzegovina and Former Yugoslav Republic of Macedonia. Such demographic mix, coupled with population growth in cities, is likely to generate significant housing demand in the future.

Despite the lower level of urbanisation, cities in the region have remained the centres of economic growth, technological innovation and cultural diversity and continue to attract business and households. However, in many countries social protection has declined considerably and fiscal constraints have eroded the quality of social services. These challenges have become particularly significant in large urban centres where the decline in living conditions is accompanied by rapid social polarisation, poverty and environmental degradation (Tsenkova, 2004c). The rise in urban poverty is one of the most serious concerns in the region. While poverty, social exclusion and inequality are much more pronounced in the rural areas, they have become an integral part of the social landscape of small and medium sized cities in South East Europe. The urban poor are especially vulnerable to economic shocks; they lack access to services, safety nets, and political representation. Cumulative disadvantages, often defined along the lines of gender, age and ethnicity, create widening social differences between different social groups with low income, single parent, or women-led households becoming worst off.

Table 3.3 Major demographic indicators in South East Europe

	Population age groups				Urban population	Urban population	Annual growth
	0–14	15–44	45–64	65+	(% total)	Millions	(%)
	2002				2000	2000	2000–2015
Albania	32.2	44.7	17.6	5.5	41.2	1.2	2.1
BiH	29.9	43.3	21.5	5.3	43.0	1.7	1.8
Bulgaria	14.6	41.8	26.5	17.1	69.6	5.7	-0.1
Croatia	16.6	41.4	25.7	16.3	57.7	2.5	0.5
FYR Macedonia	29.6	49.7	15.3	5.4	62	1.2	
Moldova	20.7	47.9	21.6	9.8	46.1	2.0	0.7
Romania	17.0	44.8	24.0	14.2	56.2	12.5	0.3
Serbia & Montenegro	19.5	42.8	23.7	14.0	52.2	5.5	0.8

Author's estimates based on United Nations Population Projections, 2003 data

3.2 Concluding Comments

In conclusion, while recognising the differences among the countries of South East Europe, this analysis has highlighted several common themes and issues pertaining to the political, economic and social transition in the region. Despite progress in political stability, a major challenge in South East Europe is to build strong public institutions capable of providing the public goods needed for a functioning market economy, as well as to improve public sector management, and address organised crime and corruption. In the economic realm the greatest progress has been made by EU candidates Bulgaria, Romania and Croatia. All three countries have made significant gains in overhauling their banking sector and infrastructure, while Bulgaria and Romania have both undertaken large-scale privatisation. Despite some successes leading to GDP growth and reduced inflation, however, the commitment to reform appears to be wavering in much of the region. The high degree of activity in the informal sector and the relative weakness of investment flows as well as corruption and incomplete institutional reform are major problems in the region. The roadmaps for Bulgaria and Romania advanced by the European Commission concentrate on administrative and judicial capacities, economic reform and the chapters of the *Acquis*.

In the social realm the growing number of refugees and internally displaced people has created significant social challenges. War-affected countries have suffered major economic and social shocks with long-term divisions in society, often along ethnic lines. Notwithstanding the social stress in war affected countries, the region as a whole has experienced years of negative population growth, emigration, and rapid increase in poverty. Overcoming unemployment, in particular youth unemployment, remains one of the region's greatest social and economic challenge; and failure to achieve progress may threaten political stability.

Further detailed discussion of political, macroeconomic and social developments is beyond the scope of this research. Nevertheless, and despite the complexity of those interlinkages in general, and their impact on the housing system in particular, several general statements relevant to the study that follows can be made. The housing system is particularly sensitive to pressures created by economic recession and high inflation. Economic development in the region measured by key indicators such as annual changes in GDP and inflation suggests a difficult process of macroeconomic transition from planning to markets. Within that context one might expect lower level of housing investment and a contraction in housing demand as a result of high interest rates and unemployment. Furthermore, the war-related housing crisis and political instability in several countries in the region would place considerable demand on scarce fiscal resources, and affect adversely the nature of economic and social transitions. Notably the performance of housing markets would be expected to be less efficient and the overall reform process much more challenging.

To summarise, the review of political, economic and social processes of change in this chapter provides essential links to the overview of housing systems in the region. The conceptual framework of the book links these changes in the external environment explicitly to changes in the internal environment in three important

domains: the transitions to democracy (systemic political change), to market economies (systemic economic change), and to diverse social structures (systemic social change). These transitions are major forces at work, but so is the role of governments in shaping national policies and providing strategic guidance in the transition process. An important factor determining governments' success is the level of consistency and their ability to manage the reforms. Another important factor is the evolution of market-based institutions that can collaborate with governments to implement the reform agenda. This institutional transformation is particularly important, as 'old institutions' are recast in a new role, government bureaucracies are scaled down, and new powerful economic interests emerge. Some indigenous institutions in the region, part of the grey economy, could be transformed into productive market players.

Two critical issues are important for the housing sector: first, housing reforms and market outcomes in South East European countries will reflect diverging experiences in economic stabilisation and democratic governance; and second, these market outcomes are context dependent and will represent the legacy of former socialist housing systems. It might well be the case that market-based institutions, including those in the informal economy, in the region could become the leaders in fostering housing change.

The following chapter examines and defines the salient features of housing policy under socialism and its impact on the provision of housing. A particular emphasis is placed on the existing differences among countries in the region with respect to the operation of their socialist housing systems and correspondingly differences in housing conditions, tenure structure, and housing costs.

Chaper 4

Housing Policy Reforms in South East Europe

In the context of multiple ‘transitions’ to markets, democracy and decentralised governance across the region, this chapter evaluates progress in housing reforms. The emphasis is on change and progress in the development of institutional and legal framework to assist access to affordable housing and more effective operation of housing markets.

4.1 Major Housing Policy Developments: Challenges and Opportunities

4.1.1 *The First Phase of Housing Reforms*

Following the political changes in 1989, various reform initiatives were carried out in the region to transform the housing sector. Housing reforms were motivated by pressures to reduce budget deficits and to move away from macro regulation and direct subsidisation of housing supply to a market-oriented housing sector. It should be recognised that different points of departure had a considerable impact on choices and reform strategies.

In general terms housing reforms in the first stage of the transition focused on strengthening market forces and reducing state intervention in the housing system. Those policies promoted deregulation, increased the role of private sector institutions and reduced public expenditure. The reform also involved the privatisation of public assets – public rented stock and state construction enterprises. The practical implementation of housing reforms in the different countries is directly related to the new directions in housing policy, the process of economic restructuring and the wider context of social and political change. Risking oversimplification, this analysis will focus on the most significant reform measures in the transformation of the housing sector:

- privatisation of public housing
- deregulation of housing markets and restructuring of subsidies
- privatisation of state construction enterprises.

4.1.1.1 Privatisation of Public Housing

Different privatisation forms have been implemented – sale of public housing, restitution and conversion of co-operatives into condominiums.

- *Sale of Public Housing.* Reform strategies mainly differ with respect to the price at which dwellings were sold to existing tenants. They can be grouped into the following categories: voucher privatisation (BiH), privatisation free of charge (Albania, Moldova),¹ and low-price privatisation (Bulgaria, Romania, Serbia and Montenegro). The extent of sales has varied considerably both within and between countries. The low-price strategy, typically at less than 15% of the real market value of the dwelling unit, created a flood of sales. Privatisation progressed rapidly in Albania, Bulgaria, Moldova and Romania. Despite its late start in BiH more than half of the socially owned housing has been privatised. Regarding the size of ownership transformation since 1990, the “fore-runners” are Albania, Croatia and Romania. Starting from a low level of public ownership, Former Yugoslav Republic of Macedonia sold 90% of its public housing, while Bulgaria sold half (see Fig. 4.1).²

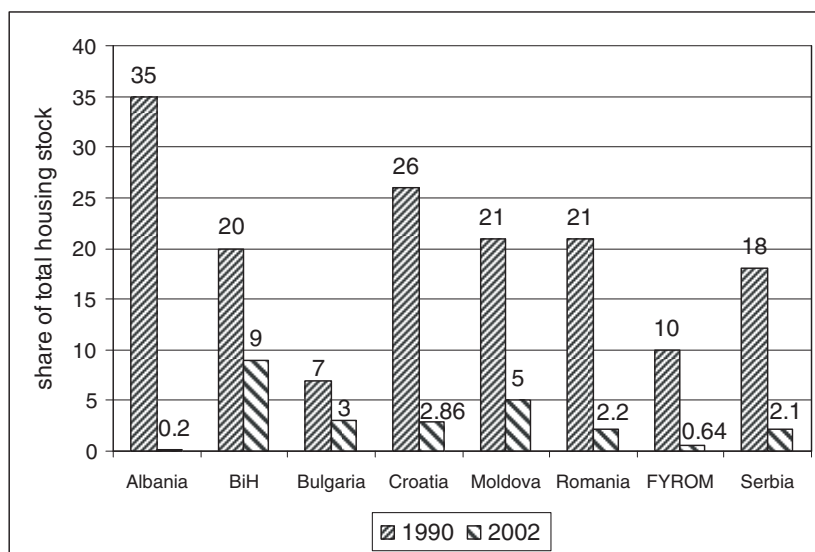


Fig. 4.1 The privatisation of public housing in the region, 1990–2002. *Source:* Hegedüs and Teller (2003) (data for 1990) and Tsenkova (2005) (data for 2002)

¹ In Moldova, a fixed amount of living space is provided free, but high prices are charged on any extra space. In Albania, a symbolic fee was applied which differed with respect to location and age (e.g. it was higher for ground level apartments and reduces to zero in case of apartments older than 20 years).

² In Former Yugoslav Republic of Macedonia there is a moratorium on privatisation, two thirds of the 5,000 public housing units have the legal status of controlled rents.

- *Restitution.* Apart from Albania, Bulgaria and Croatia, restitution has not been an issue in the other countries in South East Europe. Tenants of state-owned housing built before 1950 found themselves being tenants of a private landlord, which reportedly creates a lot of tension between tenants and new landlords. The restitution had some impact on the inner parts of towns and cities affecting in Bulgaria (5%), Albania (3%) and Croatia (4.2%) a significant share of housing.
- *The Transformation of Cooperatives into Condominiums* is another aspect of privatisation in countries which were part of former Yugoslavia. Although the sector was relatively small, the legislation in 1992 allowed the conversion to entities where owners have exclusive ownership of the unit and a stake in the common areas in proportion to the floor space of their flat.

The discount policy has given rise to concerns about the distribution of wealth in transition countries (Clapham et al, 1996; Hegedus and Tosics, 1996). While the general view is that privatisation has shifted wealth towards a significant part of existing tenants, it has also increased social inequality. Among the losers are typically households in the waiting queue for housing, but also those with a low or even negative value of their dwelling as a result of inferior quality with high repair and maintenance costs. On the other hand, uniform prices allowed privileged households to acquire considerable wealth at insignificant cost (Tsenkova et al., 1996).

4.1.1.2 Deregulation of Housing Markets and Restructuring of Subsidies

In the general restructuring of the housing system along market principles, the administrative distribution of owner occupied housing has been replaced by market allocation and restrictions on housing consumption have been abolished. More importantly, reforms have dramatically expanded property rights of home owners, permitting free property transactions at market prices. Traditional perceptions of housing supply and demand were transformed by the emerging housing and land markets. Price controls over housing, construction and land prices were abolished resulting in escalation of housing related costs. Economically constrained governments were pressed to reform housing budgets in a radical way. Five main types of changes can be distinguished: (1) elimination of production subsidies, (2) reduction of public investment in new housing construction, and (3) elimination of universal subsidies for homeowners (e.g. mortgage or maintenance subsidies).

4.1.1.3 Privatisation of Construction Enterprises

The privatisation of construction and building materials enterprises was undertaken in all South East European countries although at varying paces and in different ways. Models of privatisation adopted were based on those employed in other industrial sectors, such as employee buy-outs or the creation of large state investment funds to hold shares. Other means included sale of enterprises to foreign investors, and/or coupon

sales where citizens were given vouchers which can be exchanged for shares. The privatisation of large-scale, vertically-integrated, state-owned construction enterprises (*kombinats*) was completed due to the low demand for their product and lack of projects to ensure large scale production and economies of scale.

4.1.2 *The Second Phase of Housing Reforms*

The second phase of housing reforms in South East Europe since the mid-1990s has proceeded through 'trial and error', focusing on problems to be remedied rather than strategic intervention. This incremental style of policy action means that a number of limited options are supported and that the policy process is fragmented through devolution of power to a number of participants. In the spirit of incrementalism, policy evolves through complex and reciprocal relations between bureaucrats, politicians, and representatives of interest groups.³ There have been limited attempts to launch more strategic interventions. Albania has a *Housing Action Plan* approved in 2001 and Moldova developed its *Housing Strategy* in 1998, but it was never implemented. Croatia's attempt to get its Housing Strategy approved failed due to changes in government and Serbia's efforts to build consensus on social housing issues and further reforms has been jeopardised by political instability. In Bulgaria, after 15 years of neglect, the government approved a *Housing Strategy* in 2004 and several ambitious programmes to deal with rehabilitation of existing housing.

Overall most countries in South East Europe today have a myriad of regulations and housing related initiatives that are not necessarily consistent and coherent with stated housing policy goals and objectives. Despite some diversity of housing policy experiences, the reform path emphasises a less prominent controlling and subsidising role of the state and a greater role of the market. Generic subsidies have been cut back and responsibilities for social housing devolved to local governments. However, new transfers have emerged, such as deductibility of mortgage interest or contract savings in Croatia and Romania. New programmes providing public/social housing for low-income households have been introduced in Romania, Former Yugoslav Republic of Macedonia and Serbia. These developments sketched in broad strokes, are comparable elements of housing policy pursued in South East European countries. Yet, some specific arrangements, the timing of these instruments and the response of different housing systems, determine a range of 'enabling' housing market strategies.

Notwithstanding the diversity of arrangements, policy instruments can be grouped into the following categories: *voluntary* (community, non-profit, markets), *mixed* (information, subsidy, taxation) and *compulsory* (regulation and direct provision) (Doling, 1997; Howlett and Ramesh, 1995). It appears that the overall reform path

³ The 'trial and error' approach is contrasted to rational policy making. It is incremental in nature and does not imply a fundamentally new approach thus reducing the uncertainty and errors (Lindblom and Woodhouse, 1993).

followed by most countries in the last decade has been a move away from direct provision of housing services to reliance on voluntary instruments (housing markets, voluntary organisations and self-help. This reform trajectory can be presented through the ladder of policy instruments in Fig. 4.2. While the spectrum includes a range of ‘enabling’ housing market strategies, the second phase of the reform has marked a shift to mixed instruments (demand-based subsidies to support homeownership or post-war reconstruction) and institutional development aiming at building market-based institutions of housing finance and other market intermediaries. In the realm of ‘compulsory instruments’, housing policy activity has focused on harmonisation of the legal framework for housing management, property registration, mortgage and construction. Public provision of housing has remained limited. A harsher public expenditure regime has led to less investment in social housing, although in some countries limited support for low income and socially disadvantaged groups has been launched (Council of Europe, 2002).

The direction of change is no doubt the same across the region, and the underlying elements are similar. However some countries have been more successful than others in designing and implementing housing reforms. In fact, notions of convergence do not really match the reality of widening differences in the structure and operation of housing markets between Albania and Croatia for example, or Bosnia and Herzegovina and some of its South East European neighbours (Tsenkova, 2004a). The reform path can be summarised by the following clusters of actions:

- Institutional reforms enabling more efficient operation of market intermediaries and HOAs
- Legal reforms to establish a more effective framework for housing finance, property registration, and land management for housing

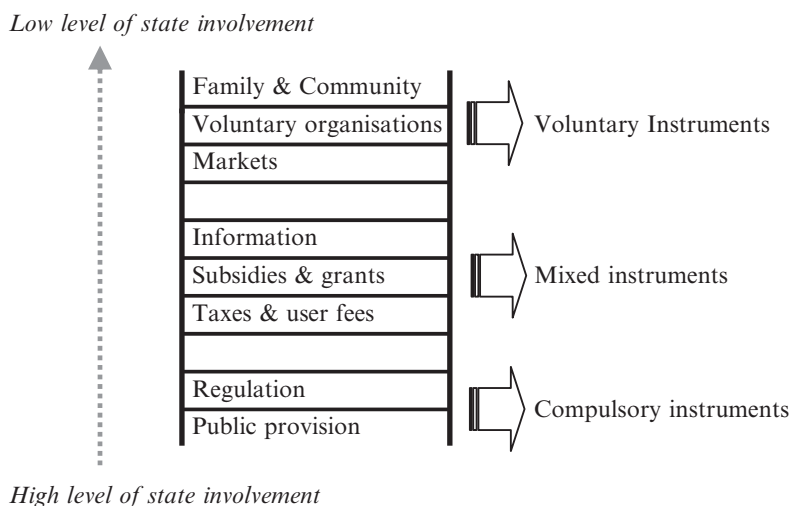


Fig. 4.2 The ladder of policy instruments

- Fiscal reforms and programmes for the management of public housing and social assistance
- Financial support for homeownership
- War-related housing and refugee programmes.

These issues will be reviewed in a comparative perspective in the next two chapters with an emphasis on differences and similarities across countries in the region.

4.1.3 Progress in Housing Reforms

The evaluation on progress and challenges in housing reforms summarises the results of a survey administered to housing policy officials representing major government institutions in South East Europe in the Housing Expert Network of the Council of Europe (see Annex 2). The sample is small, so the results are not considered representative for the policy community in the region. Notwithstanding these limitations, the survey highlights important areas for housing reforms as well as major challenges.

Figure 4.3 presents a summary evaluation of progress achieved in four areas of housing reforms: legal, fiscal, financial and institutional. Overall the ranking, measured by percentage of responses identifying poor reform performance, indicates inadequate progress in most policy areas. Although significant progress has been

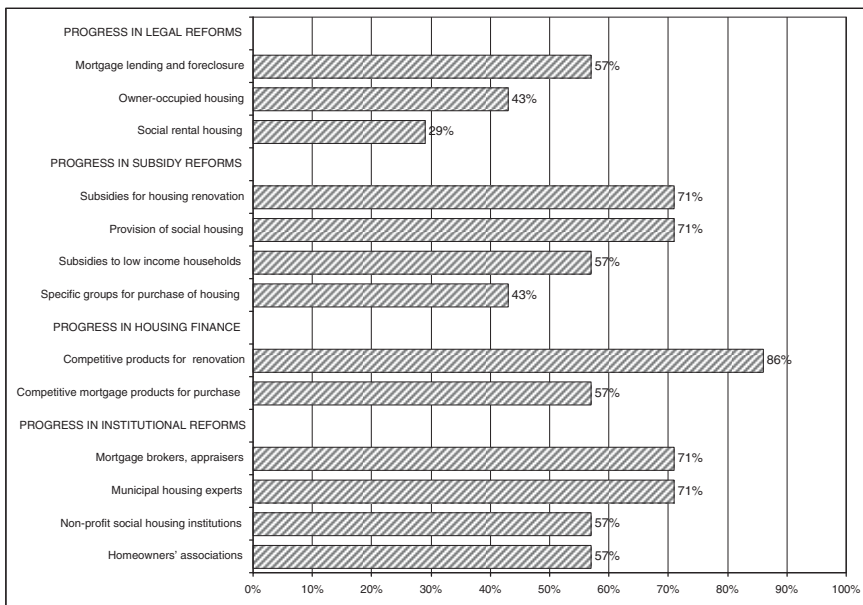


Fig. 4.3 Inadequate progress in housing reforms in South East Europe. Source: Tsenkova (2004a)

accomplished in developing adequate legislation, the legal framework for mortgage lending and foreclosure is considered inappropriate. With respect to subsidy reforms, major concerns relate to the lack of subsidies for renovation as well as social housing (71% of respondents). Equally unsuccessful so far has been the institutional development of market intermediaries (mortgage brokers, property appraisers, real estate agents) and municipal housing experts. Not surprisingly, mortgage lending is viewed as the area where virtually no progress has been achieved (86% of respondents identify poor performance).

The second cluster of interview questions relates to housing policy priorities in major policy areas. Responses in Fig. 4.4 show the percentage of respondents who felt that intervention in these areas with a focus on selected measures was most important. First, there is a clear indication that more emphasis needs to be placed on legal and fiscal reforms. Second, the development of a legal framework for social housing seems to be a clear winner (71% of respondents), followed by legislation related to mortgage lending and foreclosure (57%). Third, in the area of fiscal reforms preferences for subsidy instruments for housing renovation, social housing and support to low income groups prevail (43% each). Fourth, in the area of financial reforms, competitive products for mortgage finance seem to be a priority, while in the area of institutional reforms - support for capacity building programmes for municipal housing experts (57%).

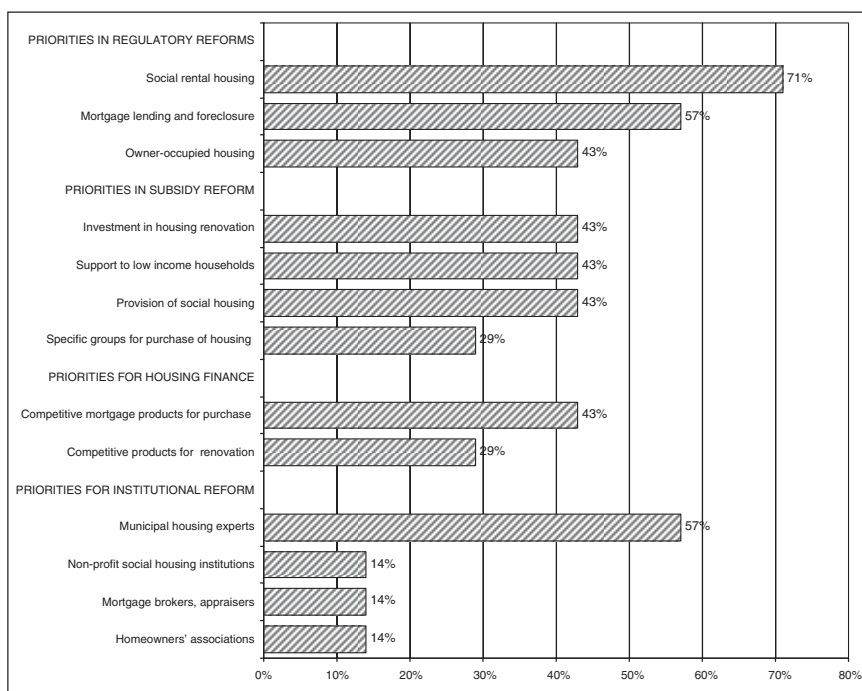


Fig. 4.4 Housing policy priorities in South East Europe. Source: Tsenkova (2004a)

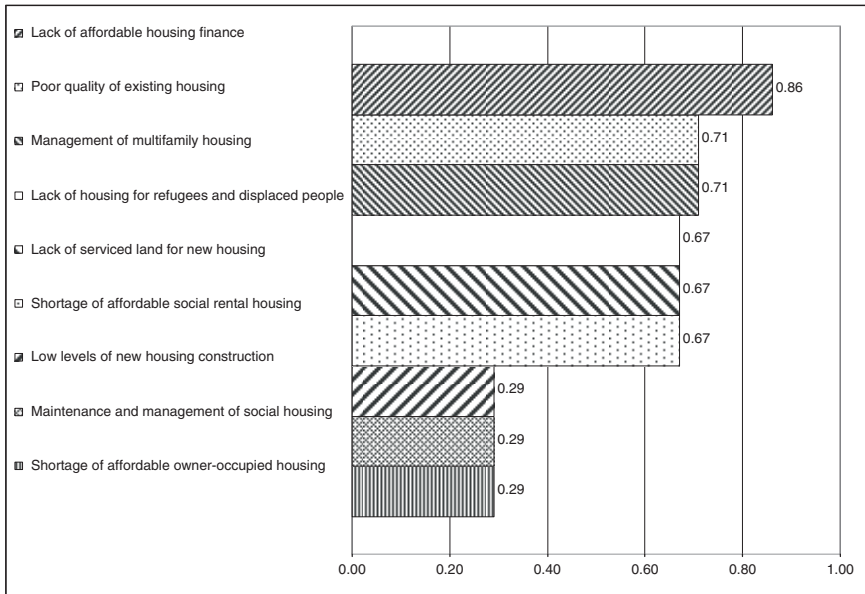


Fig. 4.5 Major challenges for housing reforms. *Source:* Tsenkova (2004a)

Policy officials were asked to prioritise major challenges for housing reforms in their countries. The responses presented in Fig. 4.5 refer to share of respondents who felt that these issues were ‘important’ or ‘most important’ in housing policy. The order of priority suggests clearly that lack of affordable housing finance (86%), poor quality of existing housing and the maintenance and management of private multi-apartment housing (71% each) are the most significant challenges for housing reforms in the region. The next important set of issues relates to the lack of affordable housing for refugees and socially disadvantaged people as well as constraints in access to serviced land for housing (57% of respondents).

4.2 Institutional Reforms: Privatisation and Private Sector Growth

Until the 1990s private sector activities (excluding self-help) were virtually non-existent in most countries in South East Europe. New actors have emerged – speculative house builders, real estate agents, private building firms and maintenance companies. Former participants have received new roles and responsibilities. Major change has occurred in the distribution mechanisms, where market allocation of housing has become dominant. Decentralisation and privatisation in the production and distribution of building materials occurred rapidly in most of the countries, while the construction sector has been relatively slow to adjust, particularly in Bulgaria and Moldova where

the industrial privatisation has been delayed. The supply of land and housing finance, the most controlled elements of socialist housing provision, have been deregulated (with the exception of Serbia and Moldova). Governments have replaced bureaucratic allocation of housing with market mechanisms. On the supply side this has resulted in a shift to private sector promotion and production of owner-occupied housing and private maintenance and management.

The institutional transformation in the housing sector is embedded in the overall economic, political and institutional restructuring of individual countries. In particular, fiscal austerity and economic uncertainty have affected the operation of central and local governments in the region and their ability to formulate and effectively implement housing policies. The public sector overall is playing an enabling role in housing with major responsibilities centred on legislative reforms. Local governments in some countries have acquired important responsibilities related to public housing (Bulgaria, Moldova, and Romania). In addition, responsibilities for refugee related programmes and post-war reconstruction in Croatia and BiH require a much more significant commitment from governments, both at the local, entity and central level.

4.2.1 Public Sector Institutions in Housing Provision

4.2.1.1 Central Government

The responsibility for housing policy in South East Europe is typically given to the ministries responsible for public works, construction and spatial planning. The need for coordination among the departments dealing with the different aspects of the housing sector as well as with other line ministries – Social Welfare, Finance, Local Government, and Justice – presents a complicated task. Financial ministries have the decisive role in housing policy and determine the allocation of resources for the sector, either in the state budget process or through the transfers to local governments. Some demand-based assistance for housing purposes is also included in the overall system of social assistance. In other words, the housing ministries typically do not control a large range of policy instruments and need to work with a number of other ministries to achieve real change (Box 4.1).

4.2.1.2 National Housing Agencies

New national housing agencies have been established in several countries to facilitate the implementation of housing policies and/or deal with specific housing problems. In Albania, Croatia, Moldova and Romania these agencies act as housing developers using budget resources, public land and donor funding to solve urgent housing problems (e.g. completion of unfinished housing, compensation of tenants in housing subject to restitution, etc.). Although the mandate of these national housing agencies was much broader including institutional support to condominium associations,

Box 4.1 Key Central Government Institutions in Housing

In *Albania* the Ministry of Territorial Adjustment and Tourism is responsible for the preparation of housing policy. The Housing Department is composed of four experts and the Director. In *Romania* the Ministry of Public Works, Transports and Housing with four major subdivisions is responsible for legal reforms in the area of housing, urban planning and management and real estate cadastre. In *Croatia* the Ministry of Public Works, Reconstruction and Construction is the leading institution in the area of housing policy with three departments: (1) Department for Housing, Building and Housing Construction; (2) Department for Reconstruction; and (3) Department for Displaced and Dislocated Persons. In *Serbia*, housing responsibility is given to the Ministry of Capital Investments with a task to prepare programmes, legislation and housing construction important for the Republic of Serbia. In *Former Yugoslav Republic of Macedonia*, the Ministry of Transport and Communication is responsible for housing, and the Public Enterprise for Housing is responsible for the execution of government programmes. In *Bulgaria*, the Ministry of Regional Development and Public Works has the leading role on housing matters. In *Kosovo/UNMIK* the Ministry of Environment and Planning is the major institution with responsibilities for housing legislation and monitoring of donor assistance in the area of housing.

research on housing issues, and development of new mechanisms for affordable housing, most of the current operations have focused on new housing construction with limited degree of targeting. Redefining their role in the long-term might be necessary due to the unfair competition with the private sector in the areas of housing construction and finance.

In *Romania* the National Housing Agency was set up in 1999. This is an off-budget government institution designed to manage government subsidised housing programmes. In the *National Strategy for Housing* for 2001–2004 the government housing policy aimed at (1) mitigating the ratio between the market price of housing and the average family income; (2) facilitating access to the market for specific categories, especially young individuals and families; (3) Providing incentives for private investment in housing; (4) Enhancing the role of the National Housing Agency as a developer and a housing lending institution. But funding the programme is a question of politics and budgetary allocation (Council of Europe [CoE], 2003b).

In *Albania* the central government through the National Housing Agency (NHA) has built almost 10,372 apartments for ‘homeless households’ registered with local authorities. NHA sells the apartments with a contract for a lump-sum payment, applying 30% discount covered by the state budget. The second option is to take a loan; payments are made in instalments, which should not exceed 20% of the salary. The period is 25 years and the interest is equal to zero.

The National Housing Agency in *Moldova* has centred its activities on the completion of unfinished housing. These projects abandoned in the early 1990s by state enterprises

are at various stages of the construction process.⁴ The Agency receives every year a certain amount of projects, approved by a government decree, and mobilises funding from prospective buyers for their completion. The prices of housing are usually 20–30% lower compared to other new housing due to the initial transfer of land and partially completed construction involved. While this might be a reasonable way to deal with the problem of uncompleted multi-apartment housing by unleashing frozen assets into the market, the Agency operates like any private developer and does not fulfil a social housing mandate. Similar approaches have been used by the Public Enterprise in Former Yugoslav Republic of Macedonia, which acquired a number of uncompleted buildings from social enterprises in its portfolio.

4.2.1.3 Cadastre and Property Registration Agencies

Traditionally, in the region of South Eastern Europe, courts were competent for the registration of real property rights, whereas central administrative authorities had to ascertain the physical status of real property, like location, size and value. The Land Cadastre, together with the land books, and/or a system of *tapija* (Turkish based verification of property rights) was introduced during different times in the region. In the former Yugoslavia there was an unsuccessful attempt to transform the existing dual system into a new unified Real Estate Cadastre. Romania, Bulgaria and Moldova are the three countries with a well functioning cadastre and real property registration, which are essential instruments for providing the state and the economy with reliable data on real estate. In Serbia and Montenegro, BiH, Croatia, Former Yugoslav Republic of Macedonia and Kosovo/UNMIK, the cadastre system has a limited coverage (less than 60% of the territory) and court enforcement of property rights is required (ECE, 2005; Zülsdorf et al, 2004). The situation of the property registration system is a significant constraint for the functioning of housing and mortgage markets and prevents the introduction of market-based property taxation. Reliable data on land and real estate guarantee fair taxation and provide the basis for land administration, land use planning and economic development essential for the desired integration of South East Europe into the EU.

4.2.1.4 Local Governments

The reform process in the region has emphasised decentralisation, deregulation and local autonomy. In the new fiscal reality local authorities are seen as ‘crisis managers’ charged with a lot of responsibilities related to the provision of infrastructure and services, but without the corresponding resources to address those problems. Thus, the

⁴The stock consisted of 296 buildings with more than 20,000 apartments. Various options were applied – auctions of buildings, long-term credits subsidised by the National Bank, VAT exemption, etc. So far the agency has received 50 buildings with 3,000 units to complete.

central government has shifted the conflicts in housing and urban development to the local level.

Reforms on local self-government adopted in the early 1990s introduced municipalities as the basic territorial unit for local self-government. Typically municipalities will have a directly elected Assembly (Council), and a Mayor elected at large. In most countries local government is organised at one level with the exception of capital cities and some large urban centres which have a two tier municipal structure. Serbia for example has 161 municipalities,⁵ Moldova – 65, Albania – 303 municipalities (including 65 in urban areas), Romania – 42 counties (including Bucharest) with 3,000 municipalities and Bulgaria – 265. The degree of local government fragmentation, particularly in some countries, has raised serious questions related to institutional capacity and the lack of economies of scale in the management of public utility enterprises (ECE, 2001).

The functions of local governments include making decisions concerning development programmes, urban planning and management, protection of the environment, as well as the budgeting, maintenance and development of communal activities. They plan and regulate the use of building land and adopt development plans and zoning plans. Municipal enterprises also provide infrastructure and services related to water, sewer, waste management and public transport. Housing is typically a responsibility which is shared between the central and local governments with the central level focusing primarily on legal issues and the provision of housing subsidies. Local governments are the new social landlords with major responsibilities of housing the poor and disadvantaged.

Overall decentralisation has been much slower in Serbia⁶ and Former Yugoslav Republic of Macedonia due to potential ethnic conflicts and political reluctance to vest many responsibilities with the public administration. Bosnia and Herzegovina has the most decentralised structure with a great degree of autonomy at the entity level – FBiH, Republic of Srpska and District of Brcko. Despite these differences in the extent of decentralisation, most local governments are highly dependent on central government transfers and have limited possibility to raise funds through local taxes and fees.⁷ A major source of local government funding in the European Union – property taxes – is very limited in South East Europe. The issue of funding is particularly critical with the scale of demands exceeding current resources. Reliance on donor funded projects, particularly in Serbia, Montenegro, Kosovo/UNMIK, Bosnia and Herzegovina, makes the need for sustainable local funding more important. The delivery of many services, such as apartment maintenance, is carried out by enterprises that are working for, but not directly controlled by, municipalities.

⁵There are total of 161 municipalities, excluding Kosovo/Metohija ranging in size from 235,000 to 3,000. The City of Belgrade includes 16 municipalities (ECE, 2005).

⁶For example, local governments do not own urban land in Serbia. In Former Yugoslav Republic of Macedonia urban planning control is exercised by the Ministry of Transport and Construction, while in Albania there is a Construction Inspectorate.

⁷Albania's government is highly centralised with financial resources and powers concentrated at the national level. Only 6% of the national budget finds its way to local governments (ECE, 2002).

4.2.1.5 Public Utility and Maintenance Companies

As a result of decentralisation, municipal governments were given the control and ownership of public service companies. The experience proved that strengthening municipal governance and the management of local public utilities is one of the key factors for the housing management reform. The old state-owned management structures have collapsed and the efforts to introduce new fiscal discipline and new forms of corporate governance have been limited. First, the sector is inefficient due to its limited managerial independence as far as service policies, operations and pricing is concerned. Second, prices charged for services historically have been low relative to the cost of supply. Efforts to adjust prices in line with inflation and costs have been made on an *ad hoc* basis with limited effect. Third, the funding gap in working and investment capital has led to postponing replacement, deferring maintenance, reducing services, and finally options for concessions and contracting out (Council of Europe Development Bank, 2004).

4.2.2 Private Institutions in the Provision of Housing

Many institutions are involved in the production, allocation and consumption of housing. The emerging housing markets in South East Europe are at different stages in their development and have unique characteristics. The lack of well-established regulatory institutions at the central and local level, as well as the weakness of financial institutions, contributes to the inefficiency and immaturity of these markets. The most significant ones in the process are: the developers (private institutions or individuals); the landowners; the financial institutions; the building industry (mostly private); the local housing and planning authorities and the consumers. These new roles and responsibilities are associated with the transformation of the housing sector along market principles.

The housing provision chain model is used to identify the institutions in the development process. As shown in Fig. 4.6, the housing provision process is divided into four stages: promotion/investment, production, allocation, and occupancy/service. Major public and private sector institutions involved at each stage of the process are grouped in two separate categories representing public and private interests. The effect of the reform is the growing importance of private sector activities associated with the operation of the market.

4.2.2.1 Building and Maintenance Housing Industry

The nature of the building industry and the diversity of promotion/production are vital to understanding the varying nature of output between countries. State construction enterprises in South East Europe have disappeared in the early 1990s and the 'municipal developer or social enterprise housing' has ceased to exist.

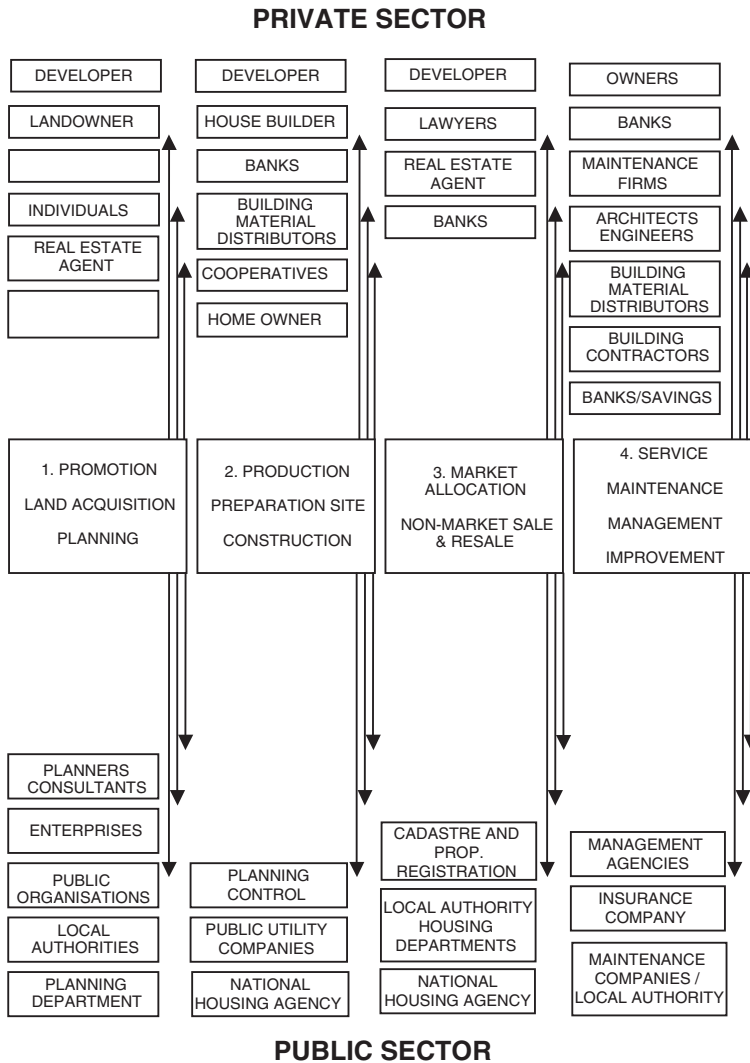


Fig. 4.6 The housing provision system: major institutions

The enterprises used to play a decisive role in former Yugoslavia, where the Solidarity Housing Fund was a significant source of housing finance. The role of public enterprises as housing developers for their employees disappeared in most of the countries, including Serbia. Meanwhile the private building industry has established a considerable market presence. Most of the firms are small, with less than 50 employees, currently holding more than 70% of the total construction industry assets (ECE, 2004). Specifically in Serbia, Former Yugoslav Republic of Macedonia and Croatia, privatisation of the construction sector has contributed to

the dramatic reorganisation of the housing industry. Before the transition the housing industry represented a dual system: (1) big state owned construction companies typically building multi-apartment housing, and (2) self-help sector, where households promoted the construction using the help of relatives and friends and/or contracting state enterprises. The speculative house builders have emerged very quickly building mostly for the elite market (Tsenkova, 2000).

The radical changes in housing markets have established a new role for private landowners. Though some of the land is still provided by public agencies (mostly through auction of leasehold or freehold rights), landowners, due to a shortage of urban land with a clear title and various local planning restrictions, are in a position to charge a 'private tax' on development.⁸ In areas with land shortages, this ranges from 30% to 50% of the house price. Considerable private sector activity in the market-based housing system is focused on maintenance and renewal. A growing number of small construction firms are competing for repair and improvement contracts with the municipal maintenance firms, even in public sector housing. Important changes have also occurred in the roles of local and central institutions associated with housing policy.

4.2.2.2 Housing Finance Institutions

Recent studies indicate that the banking system across the region has recovered (Butler et al, 2004; Falcetti et al, 2003; Merrill et al., 2003). Although privatisation occurred more slowly than planned, much of the controlling interest in the commercial banks of Bulgaria, Croatia and Romania was sold to strategic investors. By comparison, state ownership of capital in the region has been reduced dramatically to less than 15% on average. Not only is the banking system dominated by private, and in a number of cases foreign ownership, it has experienced large scale restructuring and consolidation. In most of the other countries in the region, credit activity in general, and household lending in particular, has increased substantially during the past 2 years. Reportedly, despite current low level by European Union standards, the mortgage markets in Former Yugoslav Republic of Macedonia, Bulgaria, Romania and BiH are expanding at a rate of 20–40% annually. Banks have started to offer much more competitive financial terms – particularly longer maturities and lower interest rates – and apply less restrictive underwriting criteria (Bothwell and Merrill, 2005). The mortgage market in the region is dominated by commercial banks. Recent overview of the mortgage market in a number of countries suggests that mortgage lending is offered by a small number of institutions, often the largest commercial lenders with some degree of foreign ownership.

⁸Private landowners in most cases own a small lot with older, often substandard housing. Urban renewal in socialist cities was often delayed, so some neighbourhoods in prime locations experienced considerable decline. Such situations alternatively have generated opportunities for private redevelopment of those areas. Restitution of land and housing has increased to some extent the supply of urban land.

4.2.3 Non-Government Organisations and Housing Market Intermediaries

Non-government organisations (NGOs) in the countries of South East Europe are at an early stage of development and require support to act as effective intermediaries between the public sector and civil society. They are generally limited in capacity and reliant on international donors for funding. Representative bodies of owners or tenants at the national or local level are few, though there has been some attempt to involve NGOs in the development of national housing policies. There are no institutions dealing with housing research, surveys, data collection and policy evaluation.

4.2.3.1 Associations of Homeowners

The new institutions in the urban housing system are homeowners' associations (HOAs) or condominiums. Studies indicate that despite the effort to establish an adequate legal framework for the operation of these new entities, the privatisation has resulted in quasi-ownership with inefficient way of managing housing assets (Council of Europe [CoE], 2003b). In most countries less than 20% of the multi-family housing has HOAs acting as legal entities. Lack of funding and experience to deal with the complicated tasks of asset management and financial planning has aggravated the housing conditions across the region. In some cases municipal maintenance companies still manage privatised housing under contractual obligations with new owners at nationally controlled prices. The scale of multi-apartment developments also creates difficulties in management and co-ordination of financial contributions. In addition, the level of housing related services (water, energy services, district heating, garbage collection and waste management) has declined because of subsidy cuts, rapidly escalating costs and massive arrears with respect to utility costs. As a result of these processes not only have the public services deteriorated, but the normal maintenance of the housing stock has also accumulated a huge backlog.

4.2.3.2 Housing Market Intermediaries

A housing market and land administration can function only through close cooperation of the public sector (policies, legal framework, institutions, such as the cadastre and rights registration) with the private sector participants, such as the mortgage based financing system, the professions of notaries, surveyors and real estate agents. All of these elements are not well developed in the countries in the region and in some cases do not exist (Serbia, Montenegro, BiH). The introduction of professions such as notaries, real estate appraisers and housing managers would improve the operation of the housing market. Similarly, the profession of real estate agents has to be regulated with regard to qualifications, licensing, monitoring of activities, fee

structures and the creation of a self-regulating organisation. Romania and Bulgaria have professional organisations for property appraisers, Construction Chambers, Unions of Architects and Licensed Engineers. Realtors in Sofia, Bucharest, Dubrovnik and Zagreb typically have sophisticated databases of properties and sales prices, and web sites listing properties on the market (Merrill et al., 2003, 2004). In Chisinau Laura is the largest real estate agency providing similar services. While there is no formal multiple listing, some of the largest realtors share information on a voluntary basis. As the market matures and both mortgage and management contracts become more sophisticated, the need to regulate the work of housing market intermediaries – real estate agents, housing managers, property appraisers and maintenance firms according to international standards will become much more pronounced.

In summary, the most important constraints for the efficient operation of housing institutions in the region are:

- Lack of adequate institutional capacity of public institutions
- Lack of effective institutional cooperation – bureaucratic structures, corruption, red tape
- Lack of well established professional intermediaries
- Ineffective operation of Condominiums
- Unsustainable operation of public utility companies.

4.3 Reforms of the Legal Framework for Housing

Further development in the legal framework is the cornerstone of the second phase in housing reforms. Some countries have been more successful than others in designing and implementing adequate legislation to ensure a more efficient market-based system of housing provision. The comparative analysis will focus on the development of housing related legislation in several areas:

- Property rights and registration
- Housing loans and mortgages
- Privatisation of public housing
- Management of housing
- Planning and construction
- Property taxes.

The matrix in Table 4.1 summarises the main areas for reforms in the housing legislation, which have received attention in recent years. This stylised assessment indicates overwhelming emphasis on access to homeownership through privatisation with legislative action to ensure private property rights in housing and other real estate. Although some progress is made in developing legal frameworks for cadastre and property rights registration, in a number of countries the system is ineffective, incomplete and often court-based. Some countries (Romania, Croatia and more recently

Table 4.1 Matrix of priority areas for reforms in housing legislation

Country	Property rights and registration	Housing loans and mortgages	Privatisation of public housing	Management of housing	Planning and construction	Property taxes
Albania	X ^a		X	X ^b	X ^b	
Bulgaria	X		X		X	X
BiH	X ^a		X	X ^b	X ^b	X
Croatia	X ^a	X	X	X		X
FYR Macedonia	X ^a		X	X	X	X
Moldova	X		X	X ^b	X	X
Romania	X	X	X	X	X	X
Serbia	X ^a		X		X ^b	X
Montenegro	X ^a	X	X			X
Kosovo/ UNMIK			X			X

^aProblematic property registration system

^bInefficient implementation of the legal framework

Montenegro) have introduced mortgage legislation. With respect to housing management, progress is uneven and despite the introduction of housing acts and/or special condominium legislation, a handful of countries have an adequate legal basis. In fact, even if the legislation exists (Albania and Moldova), the enforcement is inadequate. Efforts to reform the legal framework for planning have been limited and particularly inadequate in Serbia, Montenegro, Albania and Former Yugoslav Republic of Macedonia. While property tax legislation exists in the region, there is no systematic effort to introduce market-based property tax assessment.

4.3.1 Property Rights Legislation

In most countries in South East Europe private property rights to land and housing are secured in the Constitution (e.g. Albania, Bulgaria, Croatia, Moldova, Former Yugoslav Republic of Macedonia, and Romania). This has been an essential component of the transition to market-based systems in the early 1990s.

Title and ownership rights in real property in most countries today are considered to be adequately complete and clear for operation of the housing and mortgage market. In Bulgaria these rights are stipulated in the *Property Law*, in Croatia—in the basic *Law on Possession and Other Real Property Rights* of 1996, while in Albania property rights are governed by the *Civil Code*. In BiH work is underway on comprehensive revisions of the *Law on Property*, which governs property ownership as well as mortgage and some pledge relationships. New amendments to the *Law on Enforcement Procedure* were adopted in 2003 introducing more streamlined execution process, including sale of real estate, and clearer procedures for real estate auctions. In Serbia property ownership is regulated primarily by the *Law on the*

Basic Elements of Property Rights, initially adopted in 1980, but substantially amended in 1996. Other laws that regulate different aspects of the acquisition, ownership, possession and use of immovable property are the *Housing Law of 1992* (as amended in 2001), and *Law on Transactions in Real Estate*. Moldova and Romania have introduced *Housing Acts* in the mid-1990s defining new housing relations, rights and obligations of the owners and maintenance of apartment buildings. Former Yugoslav Republic of Macedonia had a similar experience with a new *Law on Housing* since 1998, which in addition to the *Law on Ownership and Other Real Rights* (2001) regulates property acquisition, inheritance and disposal.

4.3.1.1 Property Registration

All countries have developed to a different degree the legal framework for property registration and validation of property rights in real estate and housing. In Bulgaria the *Property Registration Law* requires titles and property transactions to be recorded in the legal registry maintained by the district courts.⁹ In Romania the process is regulated in the *Real Estate Registration and Cadastre Law* of 1996. Romania has a strong system for registration of real estate and mortgages. In fact, in both countries ownership records were reasonably well kept up during socialist years and the registration of privatised apartments has been handled in an efficient manner. The cadastre in Romania is under the jurisdiction of the Ministry of Public Administration, while the land book or legal registry is administered by the Ministry of Justice and the courts (Merrill et al., 2003).

Urban land and other immovable real estate in Albania are registered in the Hipoteka Offices, which since 1995 have been transformed into Immovable Property Registries created by the *Law on Registration of Immovable Property*. The first registration of property was free of charge, however, the completeness of the database today is questionable (ECE, 2002).¹⁰ In Moldova the *Law on Real Estate Cadastre* (1998) stipulates mandatory registration of all real estate property and established a unified system bringing technical, legal and ownership characteristics together (including mortgage and lien). The National Agency for Geodesy and Cadastre maintains the system, which has over 90% coverage of all real estate on the territory of Moldova.

In Croatia the process is regulated in the *Land Registration Act* of 1996, the *Regulations on Land Registration Procedures of 1997*, and Book of Ordinances of the Land Register of 2000. Dwellings bought or acquired on any basis until 1997 used to be entered into the Book of Deposited Contracts. Since 1997, all real estate is registered into the land books. Efforts are made to simplify and improve the process

⁹Registration of title or mortgages in Bulgaria is handled by notaries and is reported to be very speedy – as little as 24h from submission of documentation to completion of registration (Merrill et al., 2003). The legal registry and cadastre are not yet unified.

¹⁰Recent changes in the legislation allow initial registration of ownership over land with buildings under construction, which is then finalised upon completion.

of consolidation of integrated Land and Real Estate Register. While Croatia has an adequate legal framework for registration, in practice many properties are not in the registration system.¹¹

The *Law on Land Registry* in Bosnia and Herzegovina since 2002 aims at introducing a unified system for property registration. At present, separate Geodetic Administrations in FBiH and RS are responsible for the cadastre, while the land registry maintained by the courts under the supervision of the Ministry of Justice is responsible for establishing the legal rights to the object (Box 4.2). While it is difficult to get reliable quantitative estimates of the state of the title registration system today, there are some indications that upward of 40% of the country lacks a functional titling system. This is consistent with the conditions found in Croatia, Serbia and Former Yugoslav Republic of Macedonia by ongoing World Bank cadastre projects (Butler et al.,

Box 4.2 Problematic Property Registration in Croatia and Bosnia and Herzegovina

Property registration in Croatia often fails to include enterprise owned properties built during the socialist years and more recent transactions with privatised apartments. It is estimated that in Zagreb only about 50% of the properties are registered. This problem is exacerbated by the manner in which registration of privatised apartments is regulated – all apartments in a building must be registered at the same time. In Zagreb, 90% of the population lives in privatised apartments. Banks will not consider making mortgages on properties that are not registered. There are also reports that the registration records are not accurate, in other words, even in cases where properties are registered, the records cannot be trusted. To help address the problem of unregistered properties, the courts maintain Books of Deposited Contracts. This can be used for apartments in buildings that have not yet been registered but where the owner has a valid sales contract. While this procedure does not afford the same legal protection as the land books or legal registers, it is often used for purposes buying and selling real estate.

Similarly in Bosnia and Herzegovina registration of privatised apartments was handled outside the usual Land Book system to allow for speedy and reliable registration. A Book of Deposited Contracts was set up in a separate office in each jurisdiction with a Land Book registry, and entry in this system is legally tantamount to Land Book registration.

Source: Butler et al. (2004) and Merrill et al. (2003)

¹¹ While the property and ownership rights are adequately set out in the Law, there are problems with establishing ownership rights. There are conflicting claims to ownership in areas affected by population displacements during the war, and some properties are affected by restitution claims under the Law on Compensation for Properties taken during Yugoslav Communist Rule (Merrill et al., 2003).

2004; Zülsdorf et al., 2004). It is believed that in about 20% of the towns in BiH no court land book exists due largely to war caused damage and destruction.

In Serbia the lack of adequate registration in the new unified Real Estate Cadastre is a major constraint for the development of efficient housing and mortgage markets. *The Law on Cadastre and the State Registration of Real Estate* has been challenging to implement due to the lack of property records from socialist times and incomplete cadastre covering only 55% of the territory. In Former Yugoslav Republic of Macedonia the issues are similar. Recent amendments to the *Law on Survey, Cadastre and the Real Estate Rights Registry* in 1991 introduced the framework for integrated cadastre and real estate property system – Public Paper – which contains information on the property ownership, rights, lien and technical characteristics of the property.

4.3.2 *Legislation on Housing Loans and Mortgages*

The Croatian *Law on Ownership*, Article 304, defines types of mortgages and specifies that real property may be used as security for a loan. In Bulgaria this is specified in the *Property Law*, while in Romania the *Mortgage Law* (1999) and the *Banking Law* allow licensed banks and other financial institutions to make loans secured by real property. The *Mortgage Law* has provisions for loans to be secured by future (to-be constructed) property. These provisions were included to allow the National Housing Agency to develop and finance the sale of housing (Merrill et al., 2003). In Albania the regulation of borrowing using real estate as collateral is in the Civil Code, further supplemented by the *Law on Collateral*. The separate ownership of buildings and land is not allowed and mortgages can be used only if the title on both is consolidated. In Moldova a new *Mortgage Law* is currently under review; in BiH a *Law on Pledge of Movable Property* is under consideration.

Reportedly in Serbia mortgaging is inadequately regulated by just a handful of articles in the *Law on the Basic Elements of Property Rights*. The right of pledge is established by legal transaction, court ruling and law. By contrast, in Montenegro the *Mortgage Law* was adopted in 2004

Croatia has several laws related to the financing of housing – *Law on Building Society Savings and State Subsidies for Building Societies*, *Law on the Fund for Long-term Financing of Housing Construction with State Subvention* and *Law on State Subsidised Housing Construction*.

4.3.2.1 **Foreclosure**

In Bulgaria a court judgment is required, and the “executive judge” supervises each step, including appraisal of the property, public sale or auction, and eviction. Execution is conducted under the *Civil Procedure Code* and the *Law on Obligations and Contracts Law*. Romanian law generally provides a good framework for foreclosure with details specifying court involvement, action process and priority claims (Bothwell

and Merrill, 2005). In Croatia the legal framework for foreclosure is reportedly inadequate. The typical procedure ranges from 1 to 3 years, depending on the jurisdiction. Banks tend to use guarantors in addition to collateral to counteract this uncertainty.¹² In Serbia the lack of detail in the property legislation, in conjunction with the provisions of the *Law on Enforcement Procedure* of 2000, has not allowed for the development of foreclosure as a means for a creditor to retrieve a loan. Mortgage lenders cannot initiate foreclosure; the execution of the procedure requires a favourable court ruling in a declaratory process (ECE, 2005).

4.3.3 *Legislation on Housing Privatisation*

Albania and Moldova were the first countries in the region to introduce privatisation in 1992. In Serbia the *Housing Law* effectively allowed for the privatisation of flats owned by the state: the occupier was awarded the right to buy the title to his flat at a fraction of the flat's market value. While a percentage of the proceeds were expected to contribute towards the provision of social housing for vulnerable groups, very little was built. The price was estimated based on different criteria such as average gross monthly income in the Republic, age of the dwelling and its quality, and flat size. A reduction was made on the basis of years of working experience of tenants. Prices were discounted by 50% for disabled veterans from World War II.

In Montenegro the *Law on Floor Property* of 1995, amended in 1998, provides the basis for privatisation. In contrast to the situation in Serbia, however, the legislation terminates the possibility for the tenant to purchase the apartment within 2 years of the law coming into force. In a further contrast to the situation in Serbia the owners of buildings constructed on private land have been awarded common indivisible ownership of both the building and the land. Montenegro adopted a new *Law on Floor Property* in 2004 defining maintenance responsibilities of apartment owners in a more explicit manner.

In Former Yugoslav Republic of Macedonia the *Law of the Sale of Socially-Owned Housing* (1990) and *Regulations on Establishment of Sale Prices for Socially-Owned Housing* (1992) defined the conditions for privatisation. The price was established on the basis of construction price, expenses for preparation of construction land, location and amortisation. Payment was executed in full or in instalments. In the case of payment in full, a discount of 10% could be approved. In the case of payment in instalments, these could not be lower than the prescribed rate of amortisation increased by 50% payable annually for up to 40 years (Box 4.3). The *Housing Law* (1998) further regulates housing relations in the rental and privately owned housing. The right to buy if not exercised by December 2004, is transformed into a rental

¹²In addition to mortgage loans secured by a registered lien on the borrower's property, Croatian law provides for a second type of mortgage arrangement – the fiduciary ownership model. Under fiduciary ownership, the lender holds the borrower's ownership documents (the deed or title) to the property until the loan is paid (Registra, Analystas and Imantra (RAI), 2005b).

Box 4.3 Implementation of the Law on Privatisation of Apartments in Bosnia and Herzegovina

The legislation did not specify what entity will actually implement the law, that is, accept and decide on applications, calculate prices, issue contracts, and register new ownership rights. Since the municipality owns the land upon which the housing is built, and a proportionate share of the land is included in each privatisation contract, the implication is that the municipality will have to be involved in each sale. Even though the average purchase price of 7,000–10,000 DM was reportedly high for most families, many used vouchers to pay. The law allowed payments over a 25 year term at 1% interest. The price for a privatised apartment was substantially higher than in other countries in the region, which on average ranged from several hundred dollars (Romania, Bulgaria and Serbia) to a symbolic price in Albania and Moldova.¹³ It is generally believed that the voucher an average family receives is sufficient to acquire ownership of their apartment. A voucher expires after 2 years, and an individual must live in his or her apartment for 2 years to acquire a voucher.

Source: Rabenhorst (2000)

right, on the basis of a rental agreement concluded with an entity authorised by the Government of Former Yugoslav Republic of Macedonia.

In Bosnia and Herzegovina the *Law on Privatisation of Apartments with Existing Tenure Rights* was passed in November 1997. In BiH (Republic of Srpska) this was supplemented by the *Law on the Housing Fund* (2001).

4.3.4 Legal Framework for Apartment Ownership and Management

Most countries have introduced condominium laws or changes to existing legislation to define ownership rights and responsibilities to individual and common parts of apartment buildings, including land under the building. However the formation of institutional entities such as associations of homeowners or condominiums has been very slow and in most countries the market for maintenance and management is dominated by municipal companies. With respect to multifamily housing, the legislation fails to impose in reality an obligation on residents to take responsibility for buildings, which in practice leads to further deterioration of the stock. These issues are discussed in more detail in chapter seven.

¹³The hyperinflation which followed in Serbia, Bulgaria and Croatia reduced the outstanding debt to a negligible amount.

4.3.5 *Legislation on Construction and Planning*

Most countries in the region have adopted, or revised substantially, planning legislation to define private and public responsibilities in the development process. A new generation of master plans has been developed, at least in the capital cities and major urban centres, recognising new real estate market realities. The differences in the legal framework on planning and construction are significant between Bulgaria and Romania on one hand and the countries from the former Yugoslavia on the other.¹⁴ The legacy of a system which did not recognise private property over urban land, coupled with the lack of adequate property registration of property rights, is a major constraint for the implementation of an effective planning framework in these countries. The problems that have plagued the construction of new housing, particularly in Serbia, Albania, BiH, and Montenegro, are manifold. The primary problem is access to land and cumbersome planning and building permit process. In addition, massive illegal construction, especially on the periphery of urban settlements, testifies to a failure to develop a coherent and comprehensive urban planning and zoning policy. Failure to establish transparent and consistent procedures for the auctioning of building land and the issuance of the necessary construction permits also contribute to the high volume of illegal construction. Even in Former Yugoslav Republic of Macedonia, where the regulatory framework for the realisation of detailed urban plans and construction of buildings (*Law on Spatial and Urban Planning and Law on Construction of Investment Buildings*) is in place, the amount of illegal buildings in Skopje is high.

Undeveloped municipal land still has not been denationalised in Serbia and Montenegro as well as BiH and remains in state ownership. The municipality has the right to allocate the land by several methods (leasehold, auctioning of rights, outright sale) as agent of the state. Both the Federation and RS now have *Laws on Urban Construction Land* (2003) and *Law on Spatial (Urban) Planning* (2002) which establish the principles that: (1) building owners are considered to also own the land under their building; (2) holders of rights of use to undeveloped lands created prior to 1992 have a temporary right to use the land and a preferential right for construction; and (3) other undeveloped urban lands are to be allocated by the municipalities primarily through competitive procedures under short term construction leases which will convert to ownership upon completion of construction (Butler et al., 2004).

In Serbia the *Law on Planning and Construction* (2003) provides for construction on public building land through lease by the local government in accordance with the Urban Plan. Fees for the use of developed construction land are paid by the owner of the building, whilst payment for the use of public land that has not been used for construction is made by the user. The legislation also regulates the legalisation

¹⁴Former Yugoslav Republic of Macedonia only recently adopted its *National Spatial Plan* (2004). However, new legislation on construction and planning with secondary regulations was adopted in 1996 followed by the *Law on Building Land* in 2001.

procedure for buildings constructed without a permit; however, the procedures are implemented on a case by case basis.

Effectively the lack of private ownership over construction land results in inability to mortgage land for construction, which is a constraint for individuals and cooperatives alike.¹⁵ Tenure is limited to a long-term use right, which can be registered in the land books, but most banks will not lend for construction on this basis.

4.3.6 *Taxes and Transaction Fees*

Property taxes on housing in most countries are not ad valorem, but are assessed on the basis of normative amounts multiplied by the number of square metres of the taxed property. Reportedly in most countries in the region, the normative tax is established on the basis of tax zones, distinguished by quality of municipal services and other real property valuation factors. Overall the amount on property taxes in the region accounts for less than 3% of the household budget. BiH has tax exemptions for primary residences. Moldova is introducing property taxes based on mass evaluation in 2005. In Romania property taxes are calculated as 0.5% of the market value on the first property owned by the taxpayer, 0.75% of the second property and 1.0% of the third property. Property taxes are not assessed on newly built properties for the first 10 years (Merrill et al., 2003).

In Serbia, BiH and Former Yugoslav Republic of Macedonia only improvements, not land, are taxed, although there is a small amount of land lease rent that is paid. In Montenegro and Moldova the right to use state and/or municipal land for housing construction is acquired through competition/ auction. According to the *Law on Property Taxes* (1993), amended in 2003, property taxes in the Former Yugoslav Republic of Macedonia are 0.10% of the assessed market value for the first property and 0.20% for second and third.

In BiH the 1995 *Decree Law on Real Property Transfer*, effective in both entities, sets a maximum property transfer tax of 15% of the value of property being transferred. Property transfer tax rates vary considerably among jurisdictions (from 15% in Tuzla Canton to 8% in Sarajevo Canton 8% and 3% in Republika Srpska). By comparison, the property transfer tax in Croatia is 5% and in Romania it ranges between 2% and 4% of the sales price (Rabenhorst, 2000). In the Former Yugoslav Republic of Macedonia property transfer tax is set at 3%.

¹⁵In Serbia the *Law On Cooperatives*, 1996, deals with the operation of housing/construction co-operatives as both investors and contractors. A construction/housing co-operative can be registered as a legal entity: on this basis it can obtain a lease for land, construct flats, and sell them. Essentially, the co-operative provides a savings scheme for construction where credits are given to members for the purchase of apartments. The law does not, however, adequately regulate the relationship between members of the co-operatives. After contributing money towards the construction of new housing the member of a co-operative has a contract for the purchase of a flat but no legal title (ECE, 2005).

4.4 Institutional and Legal Reforms: Concluding Comments

One of the fundamental questions addressed in this chapter relates to the importance of institutions in the housing market which account for the critical differences in the nature and operation of different housing systems. Given the significance of institutional change in reshaping centrally-planned into market-based housing systems, the chapter identified major institutions and their relationships in the production, allocation, management and consumption of housing. This is essential for the understanding of housing reforms and market outcomes in different national and local contexts.

It has been argued that housing reforms have modified the socialist system of housing provision and have set a new framework for the operation of key private sector institutions. However, the institutional transformation in the region is far from complete. Although the second phase of housing reforms is attempting to address the institutional and regulatory 'vacuum' of the early 1990s, progress across countries has been uneven. In particular, efficient mortgage institutions to ensure a steady flow of capital in the housing market have not been established. Further, the uncertainties imposed by the lack of an adequate land and property registration system in most of the South East European countries have negative implications for the efficient operation of the housing markets. Despite the efforts of governments to create new legislation and/or to amend the existing one, the legal framework has failed to keep up with the market. These are important constraints for the competitive provision of housing management services as well as for the provision of new housing, issues explored in more detail in the following chapters.

Chapter 5

Government Support for Housing

This chapter further explores differences and similarities in the region with respect to housing policy measures that support access to affordable housing. These housing policy reforms are reviewed along two dimensions – supply and demand side policies for different types of tenure and target groups. Refugee and war-related housing programmes form a separate cluster due to the unique challenges for sustainable return and reconstruction in different countries. Housing policy outcomes are evaluated with an emphasis on progress towards the achievements of transparent and well targeted housing subsidies.

5.1 Fiscal and Financial Instruments to Support Access to Affordable Housing

Despite the generic subsidy cutbacks during the transition, the housing sector in South East Europe still maintains a diverse set of measures to ensure access to affordable housing as well to provide assistance to groups with special housing needs. The mix is complicated to evaluate since there is no systematic assessment of different government programmes (central or local) in the housing sector in terms of their efficiency (costs), targeting and effectiveness (outreach). The matrix in Table 5.1 summarises the main housing policy areas which have received fiscal and financial support. This stylised assessment indicates overwhelming emphasis on access to homeownership (this excludes ubiquitous privatisation policies introduced in the early years of the transition in the region). Some countries (Romania and more recently Bulgaria) have introduced programmes to support the renovation and energy retrofitting of multifamily housing, both private and public. Support for the rental sector is limited to a handful of countries in the region, while housing assistance for groups with special needs is a mix of programmes for households affected by the restitutions process and/or limited income support to assist with housing costs. War reconstruction efforts and assistance to refugees in BiH, Croatia, and to some extent Serbia and Montenegro, have crowded out the ability of governments to address other housing policy areas.

The next matrix in Table 5.2 identifies the choice of policy instruments which range from direct provision of housing to demand-based housing assistance and tax incentives for housing investment. Although there has been an attempt to reduce the commitment of governments through state provision of housing, an overwhelming majority of the countries still maintain these types of programmes. In Albania the target group is limited to households affected by restitution or identified as 'homeless' (although a new *Law on Social Housing* adopted in 2004 shifts the emphasis in direction), in Former Yugoslav Republic of Macedonia and Moldova public housing agencies are using state subsidies (land and frozen assets in unfinished

Table 5.1 Matrix of government support in different housing policy areas

Country	Access to home-ownership	Renovation of multi-apartment housing	Public/social rental housing	Private rental housing	Housing assistance for groups with special needs	War-reconstruction assistance to refugees
Albania			X		X	
Bulgaria	X	X	X		X	
BiH						X
Croatia	X			X		X
FYR Macedonia	X		X			X
Moldova	X				X	
Romania	X	X	X		X	
Serbia	X					X
Montenegro	X					X
Kosovo/UNMIK			X			X

Note: X – programmes and other support available

Table 5.2 Matrix of fiscal housing policy instruments in South East Europe

Country	Direct provision of housing for home-owners	Direct provision of public/social rental housing	Grants/subsidies to home-owners	Mortgage interest subsidy	Rent control in denationalised housing	Assistance to low income households	Tax incentives
Albania	X		X		X	X	
Bulgaria		X	X		X	X	
BiH			X				
Croatia	X		X	X	X		X
FYR Macedonia	X	X		X			
Moldova	X					X	
Romania	X	X	X			X	X
Serbia	X						
Montenegro	X						
Kosovo/UNMIK			X				

Note: X – policy instrument introduced in legislation and/or policy framework and implemented

housing construction) to complete the projects with additional funding from potential homeowners. In Romania the National Housing Agency is targeting young households. Serbia and Montenegro until recently maintained a socialist type of housing provision through the Solidarity Fund. Similarly, a large number of countries have grants and subsidies for homeowners with a mix of programmes assisting war reconstruction (BiH, Croatia, Former Yugoslav Republic of Macedonia and Kosovo/UNMIK) and subsidies to purchase housing for households in selected categories (Albania – the ‘homeless’ households and Bulgaria – the ‘old savers’).

As attempts were made to replace the instrument of direct public lending to the housing sector, in two countries steps were taken to fiscally support mortgage lending and contract savings for housing (Croatia and Romania). The subsidy mix also includes some rent control in denationalised housing (with no targeting) and use of means-tested income support (Bulgaria and Moldova). What follows is a description of different programmes in the region with a subsidy mix ordered by its intensity from high to low. War-related housing reconstruction programmes and assistance to refugees are discussed separately.

5.2 Direct Public Provision of Homeownership Housing

Serbia has had the most extensive programme in this area funded under the Solidarity Housing Fund. Enterprises, institutions and state bodies were legally required to set aside funds of 1.3% of gross salaries to provide housing for employees, who do not possess own housing unit. A part of the fund was aimed at meeting housing needs of war invalids and people with disabilities. The *Law on Income Tax in 2001* replaced the Solidarity Housing Fund. This tax was set between 0.3% and 1% of salary, which was ultimately abolished in 2004. The legislation neither defined conditions for disposal of the resources (criteria, target groups, conditions for granting and returning the resources, etc.), nor enacted other by-laws or monitoring system. The Solidarity Housing Fund resulted in approximately 0.1 flat per 1,000 inhabitants functioning mainly as the delivery mechanism of highly subsidised owner-occupied housing for middle-income households (UNHSP, 2001).

Serbia also launched a programme for construction of 100,000 flats for young couples, army and police in 1999 carried out by The Republic Construction Directorate. Municipalities were expected to provide free land; in 2000 the first 1,000 flats were allocated, without defined quotas for the specific target groups. The programme was terminated after the change of government in 2000.

In Albania, direct public provision till the end of 2004 aimed at housing construction for ‘homeless’ households – those who did not benefit from the privatisation and live in restituted housing. So far the National Housing Agency has completed close to 11,000 flats which were sold to the ‘homeless’ families registered with municipalities. The sales arrangements are twofold: (1) lump sum payment with a 30% discount; (2) long-term payments in instalments at 0% interest rate and 4% down payment.



Fig. 5.1 Multi-apartment housing in Bucharest developed by the National Housing Agency

Monthly payments are not expected to exceed 20% of the household income. In addition, free housing is built by the Agency for ex-political prisoners and war invalids (ECE, 2002). Overall this fairly generous programme, despite its limited outreach, has been costly to the state budget. Poor payment discipline has reduced the cash flow even further. The sustainability of the model, given the lack of state funds and high level of poverty among beneficiaries, is highly questionable.

In addition, a number of National Housing Agencies (Moldova, Albania, and Romania) and Public Enterprises (Former Yugoslav Republic of Macedonia) have carried out programmes to complete unfinished public housing projects frozen since

the early 1990s. While the targeting is questionable, state fines and various subsidies (land, infrastructure, value of previously completed works) are used to deliver homeownership units to the market. Since 1999 in the Former Yugoslav Republic of Macedonia, the programme provides new housing constructed on state land by the Public Enterprise for young households, people without housing property and children over 18 leaving state care institutions. Prices are 15–20% lower than market prices, buyers are expected to pay half of the price with the remaining amount paid in 180-month instalments (over 15 years) with subsidised 8.4% annual interest rate.

In Romania the National Housing Agency completes unfinished multi-apartment buildings (Fig. 5.1) started before 1990. Units are allocated to eligible households who receive a subsidy up to 30% of the total dwelling value. Target groups are young couples under 35, disabled people, veterans from the December 1989 revolution and their families, qualified staff in education and health sectors in rural settlements (Council of Europe, CoE, 2004).

In Croatia the *Law on State Subsidised Housing Construction* sets the framework for public provision of homeownership housing. The programme is implemented and financed by the State Agency-APN under the control of the Ministry of Environmental Protection, Physical Planning and Construction. The law regulates the sale price of a flat (max €910 per square metre) as well as the contribution of central government (€175 per square metre) and local government with land and infrastructure (max €210 per square metre). Buyers are required to provide a down payment of 15%; the rest is paid by instalments. The total repayment period is up to 31 years with an interest rate from 4% to 4.5% per year. The programme targets first time buyers who can qualify for a mortgage and meet the financial requirements of mortgage lenders. So far it has resulted in the provision of 1,768 dwellings with another 2,080 under construction across the country, although as Fig. 5.2 shows a large concentration exists in Zagreb and Split (Council of Europe, CoE, 2004).

5.3 Demand-Based Assistance to Homeowners

Policy instruments in that category are quite diverse. Romania and Croatia stand out with a wide range of programmes from grants for housing renovation to tax incentives for the purchase of housing. Some programmes promoting homeownership operate in Bulgaria, with limited results. Interest rate support on housing credits in Romania and Croatia was driven by efforts to reduce high nominal interest rates on loans and rising house prices.

In Romania retrofitting of multi-apartment buildings was initiated in 2003 with pilot projects for 36 public buildings in Bucharest, Roman, Suceava, Bacău, Brăila, Galați.¹ The pilot programme was expanded to include public housing in 13 counties with

¹In Romania 72% of all urban housing is in multi-apartment buildings; 58% (2.4 million apartments) built between 1950 and 1985 need energy efficiency improvements.

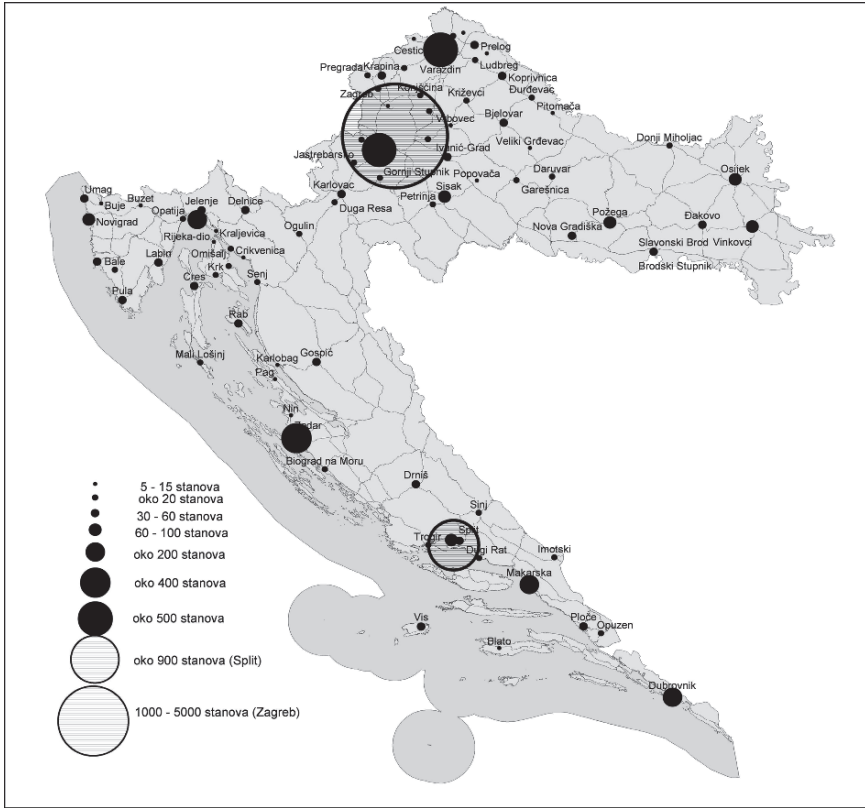


Fig. 5.2 Subsidised housing construction in Croatia, 2001–2003

the objective to launch a multi-year investment programme for privately owned apartment buildings in 2005. The funding of rehabilitation works is as follows: 25% subsidy from the state budget, 15% from the homeowners’ associations fund for repair, 60% credit with a 5% annual interest rate to be paid back in 10 years. Tax exemption is granted on the construction license and on property taxes for the whole credit reimbursement period. Similar programmes are planned in Bulgaria (see Box 5.1).

Assistance with purchase of dwellings is offered in Bulgaria to target groups identified in *The Old Savers Act*. Beneficiaries get compensations (in cash or in the form of ‘compensation bonds’) upon purchase or construction of housing. The subsidy is estimated at 0.04 BGL per interest rate point accumulated under the socialist system of savings for housing with the State Savings Bank. The average points per deposit are 100,000 so the average compensation is close to 3,000 BGL (Dimitrov, 2004). Reportedly this amount covers 5–9% of the average price for a dwelling in the resale market in most urban centres.²

²Savers are divided into three categories depending on saving time – more than 20 years, 15–20 years, 10–15 years, etc. So far compensation has been offered to 72,334 savers for the purchase of housing or construction of new unit (Dimitrov, 2004).

Box 5.1 New Housing Programmes in Bulgaria

The Adoption of a *National Housing Strategy* in Bulgaria in 2004 was followed by two new programmes approved in 2005: *National Programme for Renovation of Housing Buildings* in the Republic of Bulgaria and *National Programme for Improving the Living Conditions of Disadvantaged Ethnic Minorities in Urban Areas*. The first one aims at reconstruction of panel housing with the following programme targets: (1) First subprogramme (2005–2015) renovation of 105,000 buildings in panel housing complexes located in the largest Bulgarian cities – Sofia, Plovdiv, Varna and Burgas. The financial resources necessary for its implementation are about 670 million BGL; (2) Second subprogramme (2008–2020) includes 579,676 buildings across Bulgarian cities, half of them with panel construction. The financial resources necessary for its implementation are about 3.5 billion BGL. The State will assist the owners of dwellings included in the Programme by means of direct subsidy of about 830 million BGL. The operational aspects of the programme are still to be defined.

The second *National Programme for Improving the Living Conditions of Disadvantaged Ethnic Minorities in Urban Areas* (2005–2015) aims at creating conditions for providing housing access for low income families with children at risks. It targets specifically Roma families with the provision of 47,457 dwellings. The Programme will be funded by the government, local authorities of self-government, non-bank financial institutions, The European Union and international NGOs.³

Source: Council of Europe (CoE, 2004)

Croatia has introduced an elaborate system of tax deductions for housing purposes: (1) investment for purchase or renovation of housing can be deducted from income tax (from 15% to 45%) but is capped at €1,600; (2) interest on mortgage payments is tax deductible as well up to 50% of monthly rent. In Romania VAT is set at a zero rate on the construction, upgrading and rehabilitation of dwellings. Serbia did not have VAT till 2005 on housing construction, which effectively is a universal subsidy of 18%.

5.4 Provision of Public/Social Rental Housing

Romania has resumed its old financing model for new rental housing construction, in which local governments and central governments co-finance the investment costs. The pump-priming of new housing investments in the rental sector in Former

³These efforts are supplemented by National Action Plan to the Decade of Roma Inclusion 2005–2015 /adopted in 2004, which envisions construction of 284 dwellings and neighbourhood improvements in Plovdiv.

Yugoslav Republic of Macedonia, Croatia, Romania and BiH is mostly implemented through direct lending for housing secured through Council of Europe Development Bank loan and grants to local governments.

In Romania the *Programme for Social Housing Construction* is implemented in partnership between the local governments and Ministry of Transport Communication and Tourism, which provides financial support in addition to land and infrastructure finance. The target group is vulnerable social categories of households, irrespective of their age. The dwellings are not for sale and rent is subsidised. In addition, the Romanian National Housing Agency (RNHA) in convention with local governments implements a *Programme for Rental Housing for Young People*. Local governments provide land and infrastructure and allocate the dwellings. RNHA acts as project developer, promoter, construction supervisor and financial provider. The target group is people under 35 (could be young people from social protection institutions); the dwellings remain public rental property administered by the local councils. An example of such project is a housing development in Brâncuşi District, Bucharest. The project has a total land area of 67.3 ha with 4,695 units: 186 in private property with mortgage credit and 4,509 rental housing for young people. This mixed community also has a nursery, kindergarten, school, health centre, police headquarters, sports fields and commercial areas (Council of Europe, CoE, 2004) (Fig. 5.3).



Fig. 5.3 Tax incentives have provided a significant boost to new housing construction in Romania

A new pilot project initiated in Albania aims to provide the first 1,200 social housing units in eight cities. The housing will be constructed on municipal land by private companies contracted in accordance with national procurement guidelines. Financing is provided by the state (up to 10%), municipalities (up to 30%) and a subsidised loan from the Council of Europe Bank with state guarantees. Construction is exempt from VAT of 20%. The social housing will be targeted to low income families that do not possess a house, or live under minimum standards. The annual rent is set at 4% of the cost of construction; in cases where rent exceeds 25% of the household income, a housing allowance will be provided for up to 50% of the rent.

In Former Yugoslav Republic of Macedonia new social housing is under construction since 2000 with a €15 million loan from the Council of Europe Development Bank matched by the same investment from the state budget. The objective is to build 856 flats across the country. The flats are intended to be rented for 5 years for low income households (average annual income per member of a family below 65% of the average at the national level) without housing property as well as to young couples with children and children without parents accommodated in institutions until the age of 18. The project is scheduled for completion in 2006. Units can be sold to tenants after the 5-year period (Fig. 5.4).



Fig. 5.4 Social housing in Brancusi District, Bucharest

5.5 Housing Assistance to Low Income Households in the Rental and Owner Occupied Sector

Housing allowances are the most powerful subsidy to provide a safety net for the households whose income cannot keep up with the price increase (unemployed, pensioners, single parent families). The experience of the countries in the region with housing allowances is very limited. Most countries would have a one-time emergency assistance to poor families which is not explicitly targeted to alleviate housing costs. Some form of implicit subsidy is provided through the system by the lack of enforcement in the case of arrears with utility payments, rents and maintenance costs. Overall households have resorted to reduction in consumption (heating) and a combination of stop-and-go strategies with respect to regular contributions to maintenance costs.

Bulgaria has centrally funded assistance with utility payment-heating subsidies administered by the Ministry of Labour and Social Policy. A similar rudimentary system exists in Moldova with over 10 categories of eligible households ranging from people with disabilities, war veterans, functionaries of the State, teachers, police, etc. legally underpinned by 10 different laws. Oddly enough, income is not a criterion for eligibility, although officials state that increasingly assistance is provided to families in genuine hardship.

Albania is planning to initiate the implementation of housing allowances (certificates) following the approval of its new *Law on Programs for Housing the Urban Inhabitants* in May 2004. The law aims at ensuring legal, financial and institutional frameworks that improve access to housing for low-income and vulnerable groups.

5.6 Housing and Refugee Related Issues in the Region

South East Europe has experienced the largest refugee crisis in Europe since World War II. By 1995, the region witnessed the displacement of more than 2 million people creating unique housing challenges.⁴ Serbia and Montenegro still host the largest number of refugees and IDPs in Europe, including 226,104 IDPs from Kosovo/UNMIK. While the majority lives in private accommodation, some 17,000 remain in collective centres. Most of the 186,451 IDPs in Bosnia and Herzegovina need a durable solution (Table 5.3). Kosovo/UNMIK and Croatia also have a sizable share of IDPs. A crucial element underpinning the return of refugees is the implementation of the property laws. In Bosnia and Herzegovina this has resulted in resolution of close to 93% of the property claims at the municipal level.⁵ Creating an atmosphere

⁴This section draws on materials prepared for CEB/WB SEE Housing Conference 23/24 April 2003 and the report "Refugee-related Housing Issues in Selected SEE Countries" by Wegelin, March 2003.

⁵According to latest official statistics (updated as of 31 August 2004), a total of 1,001,520 persons returned in/to BiH, out of which 440, 147 refugees and 560,326 displaced persons. A total of 728,557 persons returned in/to the Federation of BiH, 251,581 persons to the Republic Srpska and 21,382 to Brčko District (Ministry of Human Rights and Refugees, MHRR, 2004).

Table 5.3 Refugees and displaced persons in need of durable solution, 2005

Country	Refugees	Displaced persons	Total
Serbia & Montenegro	149,915	226,106	376,021
Kosovo/UNMIK	769	22,000	22,769
Bosnia & Herzegovina	22,223	186,451	208,674
Croatia	3,517	6,934	10,451
FYR Macedonia	2,217	1,299	3,516
Albania	98		98

Source: UNHCR (2006)

for sustainable return through the effective implementation of the right to property, education, housing, health care and employment is an integral part of the overall strategy of stability and development in South Eastern Europe.

The focus of international humanitarian assistance in the region has been on the reconstruction and rehabilitation of infrastructure, housing and economic revitalisation. Although significant progress has been made, 618,000 displaced people are still in need of durable solutions. This applies in particular to more than 20,000 elderly and vulnerable refugees and IDPs who continue to reside in collective centres (refer to Fig. 5.6 for refugees and IDPs still in need of durable solution). Another group with special needs is the large number of displaced female-headed households and families from Roma, Ashkaelia and Egyptian communities which endure multiple disadvantages of poverty, unemployment and social exclusion.

The Stability Pact for South Eastern Europe has undertaken several initiatives in which housing features prominently. *The Social Cohesion Initiative* emphasises the importance of housing in the region for structural socio-economic development and regeneration. Housing development is also one of the priority areas identified in the *Agenda for Regional Action* initiated by the Stability Pact's Regional Return Initiative in June 2001. Refugee-related housing issues form a major element of the programme in the three most affected countries – Bosnia and Herzegovina, Croatia, Serbia and Montenegro.

The last decade saw rapidly decreasing numbers of refugees and IDPs. Many found durable solutions by returning: over 120,000 returns have been recorded in Croatia 1,001,520 in BiH, including 445,735 “minority returns”. Figure 5.5 presents the results of this process in BiH.

5.6.1 Housing Programmes in Bosnia-Herzegovina

The efforts of the international community in refugee-related housing support were in accordance with the *Dayton Peace Agreement*, Annex VII provisions. It focused on promoting and facilitating refugee and DP returns, particularly minority returns, which resulted in two major housing programme areas (Fig. 5.6):

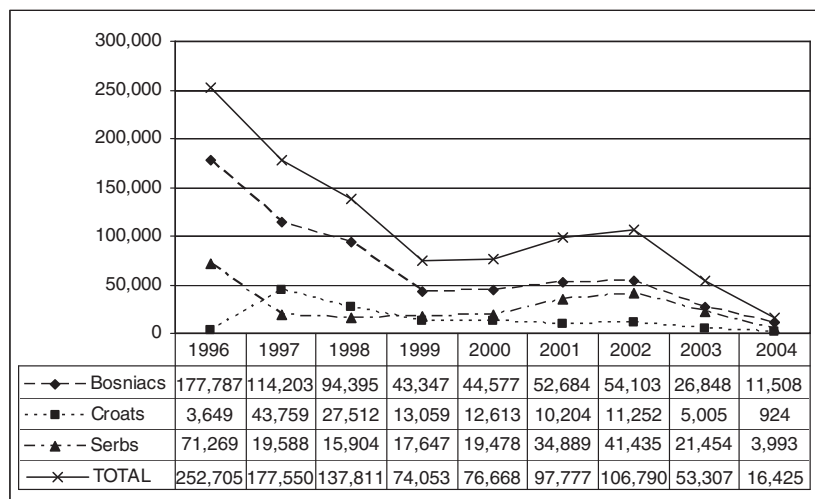


Fig. 5.5 Total return in Bosnia and Herzegovina. *Source:* Ministry of Human Rights and Refugees (MHRR, 2004)

Reconstruction of Returnee Housing: some 25,000 properties of returned refugees/DPs with damage of 20% or more have been reconstructed during 1996–2000. Of this total, about 13,600 housing units have been repaired or reconstructed through the efforts of the international community (Ministry of Human Rights and Refugees, MHRR, 2004).

Property Law Implementation Programme: to ensure that returnees can repossess their property illegally occupied by others during the war with the assistance of a number of international agencies. According to the State Ministry for Human Rights and Refugees as of May 2005, 197,044 out of the 211,808 claims – 93% – of the decisions approving repossession of property and occupancy rights were passed.

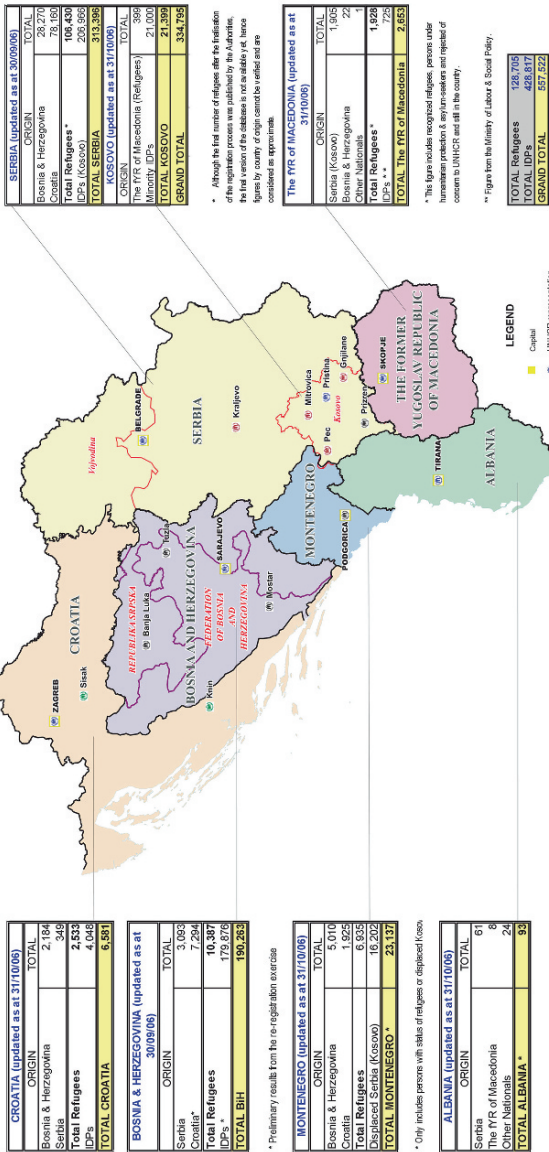
Given the fact that 445,000 homes in BiH have been partially or totally destroyed during the war and only 164,000 housing units have been reconstructed so far, the needs of the country far exceed its ability to address the funding gap. Table 5.4 provides an overview of the reconstruction needs in the housing sector indicating the level of damage. More than 187,000 of the damaged dwellings await reconstruction: almost half (some 44%) have devastation over 75%, while 16% have devastation level between 45% and 65%. Reconstruction costs are estimated at BAM 2.5 billion.

Recognising that the housing reconstruction effort needed a broader support mechanism, UNHCR and OHR established the Reconstruction and Return Task Forces (RRTFs), which operate at State, Entity and Canton level. From 2001 the State and the Entities started contributing to the reconstruction effort in a major way (Box 5.2). During 2003 government institutions of BiH have participated with 35% in overall investments for reconstruction of housing stock and infrastructure (BAM 216.7 million); international donors participated with 55%, while the rest of the sources were secured from NGO's and personal returnees investments. The *Agreements on Association and Manner of Realisation of Funds for Re-construction*



ESTIMATE OF REFUGEES AND DISPLACED PERSONS still seeking solutions in South-Eastern Europe

FIGSS in DOS
 INTERNATIONAL DISSEMINATION AND REPORTING UNIT
 Email: issd@unhcr.org



Updated to reflect the situation as at 31st October 2006

These statistics are based on information currently available to UNHCR, and should be regarded as estimates only. They do not include refugees/asylum-seekers from countries outside the region. The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.

Fig. 5.6 Estimate of refugees and displaced persons still seeking solutions in Southeast Europe

Table 5.4 Comparative indicators on war damage and reconstruction in BiH

Description	Total	
Damaged and destroyed housing units (1992–1995)	445,209	
Damaged and destroyed housing units (after DPA)	14,010	
Reconstructed housing units (1996–2004)	163,695	
Level of housing stock reconstruction	36.8%	
Ongoing reconstruction	3,893	
Number of remaining damaged and destroyed housing units (per damage level)	I (5–20%)	17,963
	II (25–40%)	24,945
	III (45–65%)	29,355
	IV (75–100%)	82,219
	n/a	32,791
	TOTAL	187,273
Percentage of remaining damaged and destroyed HUs in relation to total (1992–1995)	42.0%	

Note: Differences between remaining destroyed housing stock and reconstructed housing stock arise due to non-registration of units repaired with resources of the owners

Source: Ministry of Human Rights and Refugees (MHRR, 2004)

of Housing Units of Returnees in 2004, signed by BiH Ministry for Human Rights and Refugees, FBiH Ministry of Displaced Persons and Refugees, RS Ministry for Refugees and Displaced Persons and District of Brcko Government, have provided BAM 35.8 million for reconstruction of some 2,000 housing units for the needs of return in 2003 and 2004. In addition, 42 municipalities were selected in which projects will be implemented with the support of the European Commission and matching contributions from FBiH, RS and District of Brcko. The total cost is estimated at €7.5 million (MHRR, 2004).

5.6.2 Housing Programmes in Croatia

In Croatia, 123,020 houses and apartments either damaged or destroyed in the war have been reconstructed with a cost of KN 13.8 billion, which with the cost of reconstruction of basic infrastructure amounts to KN 16.2 billion. Significant improvement in the dynamics and sustainability of return is the result of the measures undertaken in the course of the last 4 years. By 2004, 80,156 returns have been recorded – 34,088 displaced Croats (43%) and 46,068 ethnic Serb refugees (57%), primarily from Serbia and Montenegro and Bosnia and Herzegovina (Council of Europe (CoE), 2004; Republic of Croatia Central Bureau of Statistics, 2003). Housing related programmes in relation to refugees and IDPs fall into three categories:

- *Reconstruction of housing units damaged or destroyed during the war:* 28,400 reconstructed housing units and supporting basic utility and social infrastructure in places of return, which enabled the return of 85,000 people. Depending on the degree of damage, the government provides cash compensation to the beneficiaries in case of minor damage and undertakes to reconstruct houses in case of major destruction.

Box 5.2 Council of Europe Development Bank (CEB): Major Housing Reconstruction Projects

Bosnia and Herzegovina – The Bank recently approved a €8 million loan which provides sustainable return support and contributes to the stabilisation of the return process through the provision of reconstructed dwellings and return support to 4,500 persons in transitory situation. In *Bulgaria* the CEB has approved two projects for the social integration of the Roma community involving the construction of housing units and basic municipal infrastructure in Sofia and in Plovdiv. In *Croatia* the Bank has supported the return and resettlement of refugees by financing the reconstruction of around 1,200 damaged houses and basic municipal infrastructure. Some 3,400 families have benefited from this project, which was implemented in collaboration with local authorities and with support of the UNHCR. In March 2003, the CEB approved an additional €38.6 million for the continuation of the project to accelerate the process of repossession of occupied property by the rightful owners as well as provide alternative accommodation for eligible temporary occupants.

Former Yugoslav Republic of Macedonia – CEB project under construction will provide 800 housing units for vulnerable persons. Additionally, the CEB granted €1 million for the reconstruction of damaged housing and infrastructure. Within the framework of a large-scale public programme for the construction of social housing in *Romania*, the CEB is financing a project targeted to young people and low-income families. In 2002, the Bank increased its contribution by an additional €40.8 million for the construction of 10,000 housing units. In 2004, the Bank donated \$704,000 to finance the construction of houses in *Serbia and Montenegro* for refugee families originating from Bosnia and Herzegovina and Croatia. The beneficiaries are currently housed in collective centres planned for closure in 2004.

Source: Council of Europe Development Bank (2005)

- *Provision of alternative accommodation related to the repossession of refugee owned properties* temporarily occupied by other families under the provisions of the *Law on Temporary Take-Over and Administration of Certain Property*. Most of the 19,279 housing units have been restored to their owners by 2003. However, 3,509 properties remain occupied by temporary users awaiting alternative accommodation to enable repossession (UNHCR, 2004).
- *Provision of housing for returning refugees who held tenancy rights to privatised public housing*. The government has recently recognised that a former tenancy right holder is eligible to restoration of title, if illegally dispossessed. However, the estimates of households for which the government has an obligation to provide alternative housing vary considerably ranging from 5,000 to 7,000 households.

In addition, *The Provision of Housing for the Homeland War Victims in the Republic of Croatia*, initiated in 1997, is implemented by the Ministry of

Environmental Protection, Physical Planning and Construction in accordance with the *Law on the Rights of Croatian Homeland War Veterans and Members of Their Families*. The Programme has six projects: (1) Project for immediate provision of housing through purchase of dwellings; (2) Project for completion of housing construction commenced during the Homeland War; (3) Project of housing loans and grants; (4) Project for construction of housing for 100% disabled veterans; (5) Projects for construction and purchase of housing units in new locations; (6) Projects for housing reconstruction under the *Law on Reconstruction*. The most complex is the project for the construction of new housing units, which since the beginning of the Programme has resulted in 4,757 new dwellings. Local self-governments are obliged to provide lots with all utilities for the construction of housing units (Ministry of Environmental Protection, Physical Planning and Construction, 2005).

5.6.3 Housing Programmes in the Former Yugoslav Republic of Macedonia

The Former Yugoslav Republic of Macedonia, according to a survey undertaken by the International Management Group, had 6,320 war damaged dwellings in 2001, mostly concentrated in Skopje, Lipkovo and Tetovo regions. Table 5.5 presents the total number of damaged and reconstructed dwellings in four different categories.

The reconstruction took place in 2001–2002 in two stages. The first stage, under coordination of UNHCR, offered assistance with materials for reconstruction (category I and II dwellings) as well as provision of infrastructure. The second stage covered reconstruction of dwellings in category III and IV. The governments of Germany, Netherlands, Italy, Denmark and other EU member countries donated funds through the European Commission and the European Agency for Reconstruction. The European Commission invested €33 million in the reconstruction of housing.

5.6.4 Housing Programmes in Serbia and Montenegro

In Serbia and Montenegro refugee and IDP-related housing issues differ from Bosnia-Herzegovina and Croatia in that there was only very limited property destroyed during the war periods (with the exception of Kosovo/UNMIK). The emphasis is on housing development required to accommodate local settlement of refugees and IDPs.⁶ A sizeable proportion of the refugees in Serbia and Montenegro rely on market solutions – the largest group in both republics (40%) rents private

⁶More than half (62%) of refugees and IDPs in Serbia in the registration survey in 2001 indicated their preference for local integration in Serbia, with 5% indicating a preference for return and 22% being undecided. In Montenegro a similar situation was indicated in the surveys carried out in 1999 and 2000 (ECE, 2005).

housing, while a further 28% in Serbia and 20% in Montenegro live with friends or relatives; 22% (illegally) own their own house or apartment in Serbia; in Montenegro this is 18%. The proportion of refugees and IDPs living in collective centres is 5% in Serbia, but is as high as 12% in Montenegro (see Box 5.3).

Refugee-related housing issues in Montenegro are particularly challenging. Podgorica has about a quarter of the total population in Montenegro and some 28% of

Table 5.5 War related damage and reconstruction of housing, 2005

Level of damage (%)	Damaged dwellings	Repaired dwellings	Other dwellings	Arachinovo other	Matejche other
Category 1 (1–15%)	3,497	3,445	24	28	–
Category 2 (16–40%)	1,411	1,362	15	30	4
Category 3 (41–60%)	668	614	22	10	22
Category 4 (61–100%)	744	588	48	15	93
Total	6,320	6,009	109	83	119

Source: Republic of Macedonia State Institute for Statistics, 2004

Box 5.3 Challenges for Sustainable Integration in Serbia

There are great differences among municipalities in connection to the number of refugees and IDP's. For instance, in Kraljevo which has the highest concentration of IDP's, the share of IDP's and refugees (21,000 persons) forms 17% of the total population. As a consequence, Kraljevo has large collective centres. Stara Pazova also has a high number of refugees, about 15% of the population. Half of them live in rented apartments, a quarter own their accommodation and almost the same amount stay with relatives or friends.

The government of Serbia adopted in 2002 the *National Strategy for Resolving the Problems of Refugees and Internally Displaced People*. It focuses on ensuring the conditions for repatriation of refugees and IDP's and activities for providing conditions for local integration, but implementation has been constrained by the lack of funds. The strategy includes also the closure of collective centres by the end of 2005. In 1996–2003 the Commissariat for Refugees and UNHCR together with other partners, such as Swiss Disaster Relief and Norwegian Refugee Council have provided resettlement assistance for more than 2,400 households. The Swiss Agency for Development and Co-operation has assisted the construction of over 2,600 housing units in Serbia. The main components have been local settlements assistance through construction and self-help.

Source: ECE (2005)

Box 5.4 Roma Camps in Podgorica

The Roma IDPs live mainly in Podgorica. There are two Roma camps: Konik Camp 1 contains about 1,400 persons (253 families), while Konik Camp 2 nearby has 340 people (61 families). Konik Camp 1, located close to the city's garbage dump, was constructed as a temporary shelter for Roma IDP's with 43 wooden barracks where 8 people live in 16m² housing units. This is the largest Roma camp/settlement in Serbia and Montenegro and in the western Balkan region. The area is multicultural, housing local Roma, Montenegrins, Muslims and Serbs; the residents are extremely poor, unemployed and on the bottom of the social ladder.

Source: UNHCR Sub-Office, Podgorica (2004)

the refugee and DP in the country (Box 5.4). The city's housing shortage is acute, as illustrated by the significant numbers of housing illegally built on municipal land (about 14,000–17,000 units), which house a sizeable segment of the refugee and DP population (Municipality of Podgorica/HELP, 2003). The international community has provided 200 refugee and IDP housing units since 1996 in several locations throughout the Republic (Wegelin, 2003) (Fig. 5.7).

5.7 Refugee-Related Housing Programmes in Kosovo/UNMIK

United Nations Security Council resolution created a new mandate for UNHCR – the supervision of the safe return of refugees and IDPs to Kosovo/UNMIK. While 900,000 ethnic Albanian refugees have returned to Kosovo/UNMIK since 1999, over 220,000 non-Albanian minorities are still displaced in Central Serbia. The donor assistance for reconstruction of war-damaged housing and infrastructure has peaked in 2000, as the data in Fig. 5.8 indicate, and since then is being phased out. Estimates suggest that 55% of the housing has been rebuilt.

The Housing and Property Directorate (HPD) and Housing and Property Claims Commission (HPCC) are mandated by UNMIK Regulation 1999/23 and 2000/60 to provide resolution to residential property disputes arising from the conflict in Kosovo. Its jurisdiction overrides that of the Kosovo Judiciary in the following three categories involving residential property:

- Claims by individuals who lost their occupancy rights as a result of discriminatory laws and practices after 23 March 1989 (Category A-claims);
- Claims by individuals who entered into voluntary, but informal transactions of residential properties between 23 March 1989 and 13 October 1999 (Category B-claims), and
- Claims by individuals who lost physical possession of their residential properties after 24 March 1999 (Category C-claims).



Fig. 5.7 Roma camp in Podgorica, Montenegro

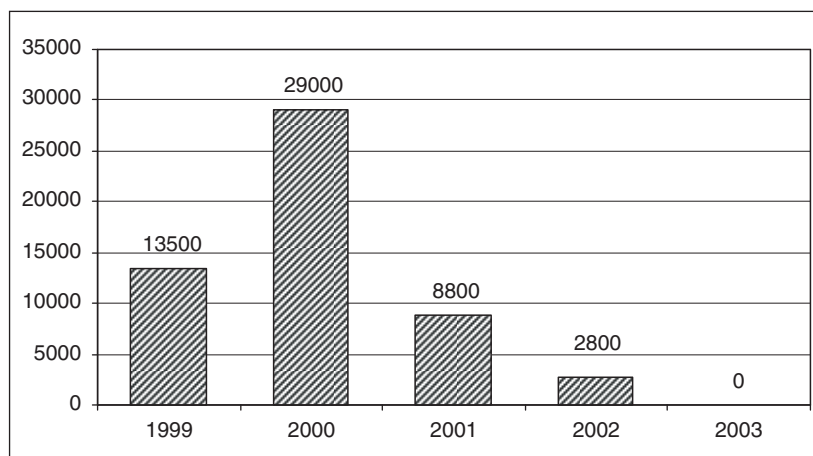


Fig. 5.8 War reconstruction in Kosovo/UNMIK with donor assistance, 1999–2003. *Source:* Kosovo Statistical Office, 2004

HPD completed the claims registration process in July 2003 with approximately 29,000 Category A, B and C claims (the latter being close to 90% of total). It currently focuses on processing these claims and implementation of subsequent decisions. The implementation may involve voluntary settlements; physical return of properties; placing properties under the administration of HPD; investigation of the humanitarian

need of accommodation for the current occupant and granting permits for temporary accommodation (Housing and Property Directorate, The [HPD], 2004).

In addition, HPD is actively developing a rental scheme, which will enable successful claimants to place property under its administration with request to let it out. This will generate income from their property while maintaining property rights, thus providing an alternative to selling. The model investigated involves the selection of an international rental company through competitive tendering to manage the properties. The rent charged will include necessary fees covering: (1) the cost of the rental scheme; (2) maintenance of the housing unit; (3) public fees and taxes (utilities and property taxes); and (4) net amount payable to the lawful owner. With a potential of 10,000 housing units and a monthly rent of €100–200, the annual collection may be in the range of €12–24 million.

5.8 Concluding Comments

Despite the generic subsidy cutbacks during the transition, the housing sector in South East Europe still maintains a diverse set of measures to ensure access to affordable housing as well to provide assistance to groups with special housing needs. The mix is complicated to evaluate since there is no systematic assessment of different government programmes (central or local) in the housing sector in terms of their efficiency (costs), targeting and effectiveness (outreach). Most of the support aims at homeowners providing a combination of public provision and demand-based assistance (grants, interest subsidies and tax incentives). Romania and Croatia have the most aggressive housing programmes, while in Bulgaria and Former Yugoslav Republic of Macedonia housing has disappeared from the policy agenda in the last 15 years. Albania and Moldova so far have struggled with major economic difficulties, which have reduced fiscal support to a limited set of policy measures with inefficient targeting. Support for the rental sector is limited to a handful of countries in the region, while the housing assistance is limited to groups with special needs. There is limited information on the number of units delivered under each programme, its cost and/or the cost of different tax deductions and grants (Fig. 5.9).

The low level of direct budget allocations for housing across the region, however, is complemented by considerable public resources that indirectly flow into the sector. These implicit housing subsidies take a variety of forms: subsidies to cover emergency repairs in multifamily housing, provision of land and infrastructure for owner-occupied and rental housing under new programmes (Romania, Serbia, Moldova, Albania), below market rents in public rental housing, non-existent market based property taxation (Serbia, Montenegro, BiH, Former Yugoslav Republic of Macedonia), no value added tax on housing construction (Serbia), no cost-recovery mechanisms for utility infrastructure connection and improvement. This lack of financial transparency in the housing sector as well as fiscal discipline reflects the rudimentary nature of fiscal housing policies in the region and needs to be



Fig. 5.9 Refugees in Bosnia and Herzegovina

reconsidered. Taxes, fees and targeted subsidies are essential policy tools directed to rationalise housing consumption and to encourage private investment in housing.

With respect to sustainable return of internally displaced people and refugees, countries in the region have huge investment needs. The available resources are insufficient and reconstruction assistance provided to returnees remains unfortunately far below the requirements (Ministry for Public Works, Reconstruction and Construction, 2003; UNHCR, 2004). Furthermore; progress still needs to be made in removing administrative and legal barriers at the local level to encourage sustainable return and reconstruction. Administrative procedures generally remain cumbersome and lack of adequate information is a major impediment to a free and informed decision. National registration systems are not sufficiently coordinated and more effective institutional collaboration on a regional scale would resolve problems of housing repossession.

Chapter 6

Housing Systems: Performance Challenges

This chapter applies the conceptual framework of the study to evaluate current housing conditions and recent trends in South East Europe with an emphasis on the outcomes of housing reforms and the implications for housing markets. It examines progress in housing using data from the last censuses on housing availability, quality, distribution and access to technical infrastructure. Housing choices are evaluated with respect to changes in tenure structure and access to adequate housing. The analysis emphasises issues pertaining to housing affordability in different housing markets reflected in costs in different types of tenure. Last but not least, investment in housing, and in particular new housing construction, is reviewed in the light of recent housing reforms across the region.

6.1 Assessment of Housing Distribution in the Region

The total housing stock in the region can be estimated at 20.5 million dwellings, according to data collected from national statistic institutes and the Council of Europe Development Bank.

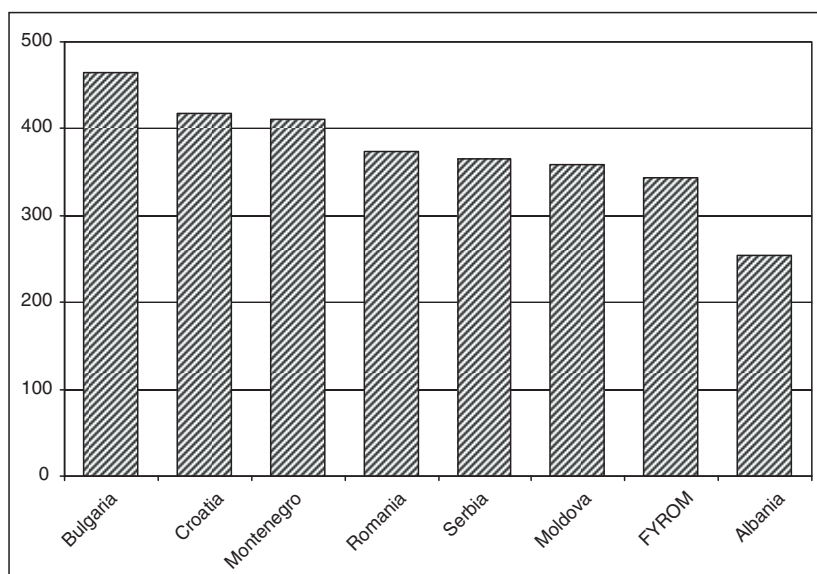
The figures on housing stock need to be analysed with some reservation given the inconsistencies in the information from the census in individual countries as well as differences in methodology. Romania is the country with the largest housing stock in South Eastern Europe which matches its population size, while the former Yugoslav Republic of Macedonia is the country with the smallest population and housing stock (Table 6.1).

Figure 6.1 illustrates the availability of housing in selected countries. The number of dwellings per 1,000 people varies from 254/1,000 in Albania to 465/1,000 in Bulgaria.¹ Housing provision in Albania and Former Yugoslav Republic of Macedonia is much lower, although in the case of Albania there has been some dramatic improvement compared to the ratio of 219/1,000 at the end of the communist era (Hegedüs et al., 1996). Overall, housing availability in South

¹The indicators on housing availability need to be treated with caution. A number of countries include vacation homes, substandard and temporary dwellings in these estimates.

Table 6.1 South East Europe: Population and total housing stock

Country	Population in million (January 2003)	Housing stock (last available year)
Albania	3.50	0.78 (2001)
Bulgaria	7.80	3.68 (2001)
Bosnia and Herzegovina	4 (2002)	0.95 (2000)
Croatia	4.42	1.85 (2000)
FYR Macedonia	2.52	0.69 (2002)
Moldova	3.62	1.29 (2001)
Romania	21.7	8.10 (2002)
Serbia and Montenegro	10.6	3.18 (2001)
Total	57.8	20.52

**Fig. 6.1** Dwellings per 1,000 inhabitants, 2002. *Source:* Tsenkova (2005); Council of Europe Development Bank Regional Housing Survey

Eastern Europe is lower than the average of 490 units observed for other EU countries. However, the GDP per capita in the region is one third of the GDP average in the EU, which affects the amount of investment available for improvement in housing conditions.

It is difficult to find both reliable data and good measures for the quantitative aspects of the housing situation in the region. Table 6.2 provides a series of indices on the availability of dwellings and their size at the national/urban level. Contrary to expectations, urban areas seem to have very similar indicators, suggesting minor inequalities in housing consumption. Dwellings tend to be small with 2.7 rooms on

Table 6.2 Selected housing indicators in South East Europe

Country	Year	Dwellings per 1,000 inhabitants (urban areas)	Average useful floor area of dwelling national level (m ²)	Average useful floor area of dwelling urban areas (m ²)	Average number of rooms per dwelling national level	Average number of rooms per dwelling urban areas
Albania	2001	278	67.0	69.0	2.2	2.1
Bulgaria	2001	420	63.3	63.9	2.8	2.6
FYR Macedonia	2002	–	71.2	–	3.0	–
Moldova	2003	353	59.1	53.8	2.7	2.3
Romania	2002	373	37.4	37.4	2.6	2.4
Serbia	2002	367	66.9	63.1	2.7	2.4

Source: Tsenkova (2005); Council of Europe Development Bank Regional Housing Survey

average; Romania stands out with 37 sq m of average useful floor space per person. In Moldova and Serbia, the differences in urban housing consumption are somewhat more pronounced with dwellings 10–15% smaller than the national average.

Households on average tend to be larger in Albania and Kosovo, while Bulgaria has the smallest household size of 2.7. As presented in Table 6.3 over 40% of the households in the region have more than three members, which highlights another dimension of the housing problem.² The structure of the housing stock – in terms of size and number of rooms is inadequate compared to the size and structure of households. However, all countries with the exception of Kosovo have a surplus of housing compared to the number of households. Consequently, there are significant differences in the magnitude of the general housing surplus ranging from 786,000 units in Romania to 58,000 in Albania. In terms of housing surplus as share of the total stock, most countries are in the range of 12–14% with Albania (7%) and Montenegro (24%) being the two extreme situations.

Local housing market mismatches pose an additional, often neglected quantitative problem. Despite the overall surplus of housing, the census data indicate that the capital cities in the region experience housing shortages and overcrowding. Dwellings on average tend to be small and often accommodate more than one household or the ratio of persons per room is higher than 1. For example, in Serbia 18% of the people (about 284,000) are overcrowded. There are many cases with more than three occupants per room (about 590,000 occupants in 120,000 dwellings). In addition, over 54,000 people live in 18,000 substandard dwellings. Evidence from the census data in Bulgaria and Romania indicate similar problems.

In addition, part of the spatial mismatch is related to migration to places with more dynamic labour markets in pursuit of employment and education opportunities. In the countries affected by war, massive displacement of the population has resulted in higher vacancies in areas where people are reluctant to return. Last but not least, second homes, which are not used for permanent habitation, are very

²In Kosovo/UNMIK 40% of the households have seven or more than seven members (Kosovo Statistical Office, 2004).

important elements of the housing markets in Croatia, Montenegro and Bulgaria. Data on vacant units in several countries in the region demonstrates this inefficient use of the housing stock (Fig. 6.2). Vacancy rates are as high as 24% in Bulgaria and between 10% and 14% in most of the other countries. This might be due to sub-standardness of housing and/or lack of demand in rural areas. In some countries – Albania, Bulgaria and Moldova – high vacancy rates are reportedly due to immigration. Absentee homeowners often do not rent out these units, even in urban areas where demand is high.

Table 6.3 Selected household and housing indicators in South East Europe

Country	Year	Household (thousand)	Average house-hold size	1-per-son	2-per-sons	3-per-sons	4-per-sons	5-per-sons and >	Housing units (thousands)	Housing surplus
Albania	2001	726.9	4.2	4.7	12.4	15.5	27.4	40	785.51	58.61
Bulgaria	2001	2,921.9	2.7	22.7	28.4	21.6	18.0	9.3	3,686	764.1
BiH	1991	1,207.0	3.6	10.8	16.7	20.0	27.8	24.7	–	–
Croatia	1991	1,544.2	3.1	17.8	22.5	20.0	23.7	16.0	1,851.6	307.4
Kosovo/ UNMIK	2003	370	5.6	1.9	5.2	7.3	12.9	72.7	300	(-70.0)
Moldova	2002	982	–	–	–	–	–	–	1,291.1	309.1
FYROM	2002	564.2	3.6	9.6	19.6	18.4	28.4	24.0	697.5	133.3
Serbia	2002	2,521.2	2.9	20	24.8	19	21.3	14.9	2,956.5	435.3
Montenegro	2002	192	3.2	–	–	–	–	–	253	61.1
Romania	2002	7,320.2	2.92	18.9	26.7	22.8	17.8	13.8	8,107.1	786.9

Source: Tsenkova (2005); Council of Europe Development Bank Regional Housing

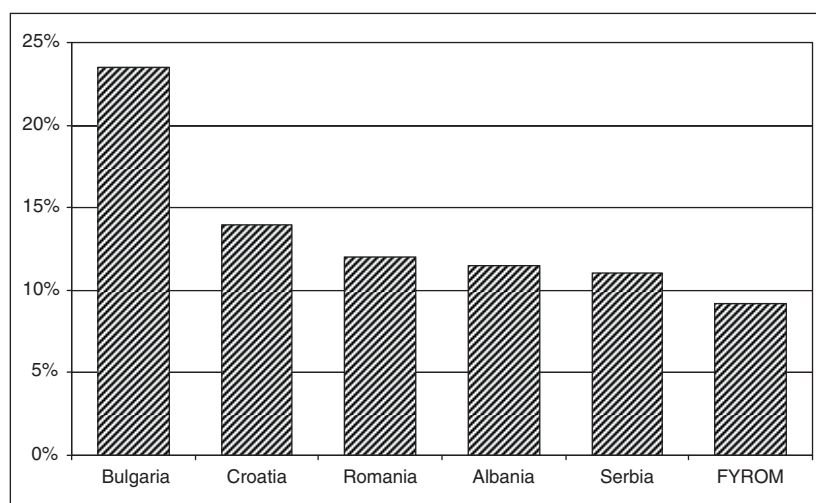


Fig. 6.2 Vacancy rates in South East Europe. Source: Tsenkova (2005); Council of Europe Development Bank Regional Housing Survey

6.2 Improvement in Housing Quality: Regional Challenges

In South East Europe quality problems of the existing housing stock have attracted significant public attention. Even allowing for definitional changes over time, the available data indicate overall housing improvement in the region since 1990s. However, cumulative shortages of financing for infrastructure development in rural areas during socialism, coupled with scarcity of public resources in the last decade, have resulted in widening differences in access to basic infrastructure between urban and rural areas. Despite the growing rates of housing construction in rural communities, mostly through self-help, public and private investment has been unable to close the gap.

6.2.1 Access to Technical Infrastructure

A large share of the housing stock in the region lacks basic infrastructure and services. As the data in Fig. 6.3 indicate water supply systems are generally better developed than the piped sewer system. Albania and Romania stand out with only around 60% of households living in dwellings with piped water supply. Water provision is also a good example of the urban bias which developed under communism. There is a major difference in quality standards in rural and urban areas.

While the majority of the urban housing (80–98%) has piped water, two thirds of the dwellings in rural Moldova, Albania and Romania lack modern water and sewerage facilities. It should be noted that these percentages vary widely within local and regional housing markets.³ The available data on sewerage infrastructure suffer from definition problems as sometimes ‘second-best’ methods, such as septic tanks, are included. The comparative data suggest a backlog in the provision of sewer for close to 80–70% of the dwellings in Bosnia and Herzegovina and Moldova. In Albania and Romania 60% of the dwellings lack these essential services. Furthermore, the scarcity of resources for much-needed upgrades in the technical infrastructure has led to deterioration of existing networks and frequent disruption of services. Indeed, the question of housing quality in South East Europe is directly related to improvement of access to safe drinking water and sanitation (Fig. 6.4).

Another indicator which reflects the level of services in the housing stock is associated with modern heating systems. District heating is widely spread in Montenegro and Croatia where the share of dwellings serviced by the system amounts to 35% of the housing stock. Moldova and Romania show an average of 25%, while in most of the other countries the share is much lower. Overall access

³Noting high statistical indicators of the population with improved water source in Serbia, ECE report explicitly states that half of households experience water interruptions; 50% of tap water in does not meet the standards for safe drinking, and in most Montenegrin cities this proportion is some 15–20% (ECE, 2005).

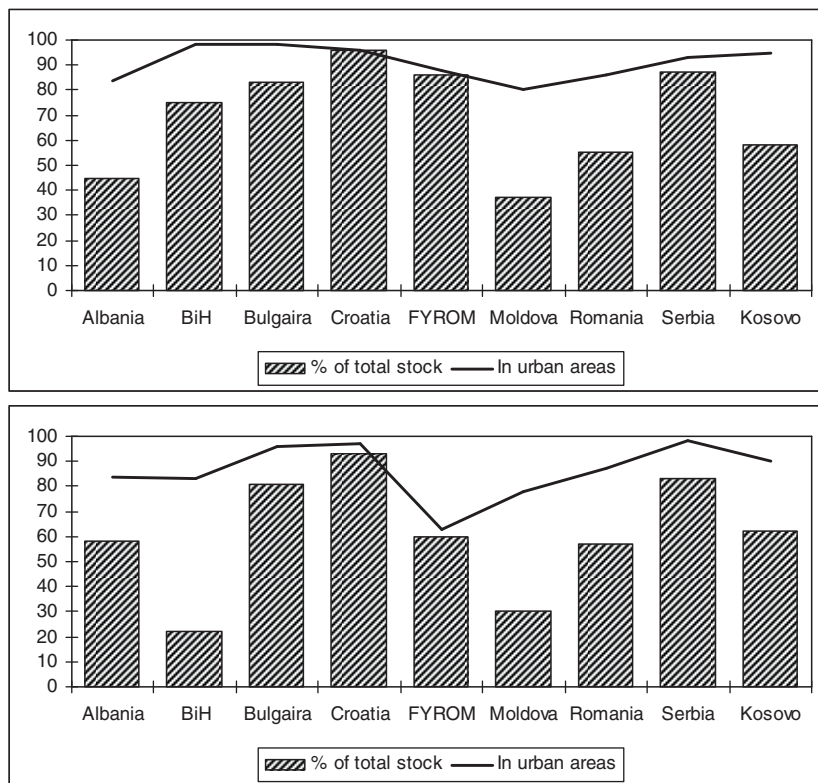


Fig. 6.3 Dwellings serviced by sewer and water, 2002. *Source:* Tsenkova (2005); Council of Europe Development Bank Regional Housing Survey. Note: Data for BiH from *The Living Standards Measurement Survey*, Agency for Statistics of Bosnia and Herzegovina (2004); for Kosovo from *The Household Budget Survey*, Statistics Kosovo, 2004

to centralised heating systems across the region is available in the capital cities and some of the largest urban centres.

6.2.2 Deteriorating Quality of Existing Housing

Closely related to housing quality are the age characteristics of the housing stock. The available data indicate that most of the housing across the region was built after World War II. The oldest part of the stock, built before 1919, constitutes only about 5% of the total against the European Union average of about 18%. Investment in housing provision during socialist years has resulted in waves of new construction, particularly in urban areas since the 1970s, to respond to urban growth. A principle feature of the housing system in the region was that new housing was built by state enterprises for rent or sale, while rural areas experienced growth in the production

of single family self-built housing. The output from 1971 to 1989 was particularly significant in all countries with the exception of Romania, where the share of new construction between 1946 and 1970 played a more prominent role (Fig. 6.5). Housing production in post-transition years added close to 18% to the housing

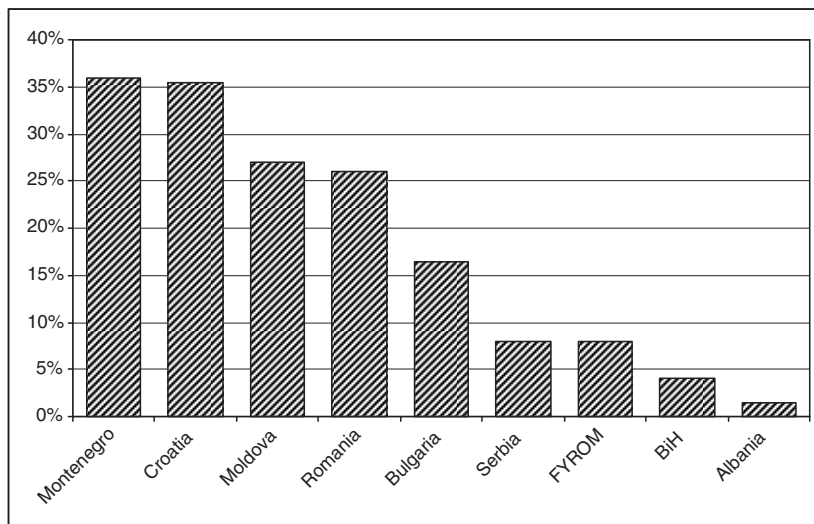


Fig. 6.4 Dwellings serviced by central heating, 2002. *Source:* Tsenkova (2005); Council of Europe Development Bank Regional Housing Survey. Note: Data for BiH from Agency for Statistics of Bosnia and Herzegovina (2004)

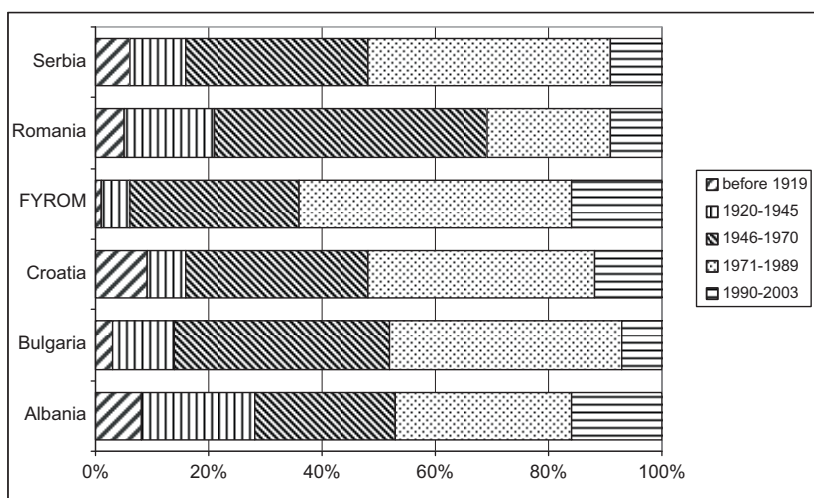


Fig. 6.5 Age characteristics of the housing stock. *Source:* Tsenkova (2005); Council of Europe Development Bank Regional Housing Survey

stock in Albania and Former Yugoslav Republic of Macedonia, while in the other countries this share was lower than 10%.

Another regional housing feature, along with the premature ageing of the housing stock, is the large existence of multi-family panel apartment blocks. While there is a lack of data for all of the countries, some censuses carried out recently reveal that multi-family panel apartment blocks account for nearly half of the urban housing stock in Bulgaria, Romania and Moldova. This building technique was the privileged construction concept, which allowed for the rapid expansion of urban areas during the socialist era creating entire city districts across the region.

Some estimates, based on aggregated data from 2000, suggest that the share of dwellings located in multi-family housing blocks makes up 30% of all dwellings in the region (5–6 million dwellings) (Hegedüs and Teller, 2003). Up to 90% were built after the 1960s out of prefabricated components. In Bulgaria, there are some 18,900 panel apartment blocks containing 707,096 dwellings – 21% of current Bulgarian housing stock – inhabited by more than 1.7 million people (Dimitrov, 2004).⁴ In Romania, 72% of urban housing stock consists of dwellings in multi-apartment blocks. The Romanian authorities have estimated that more than 800,000 dwellings (9.8% of current Romanian stock) located in panel blocks are in need of repairs (Fig. 6.6).



Fig. 6.6 Housing estate on the outskirts of Sarajevo

⁴Close to 54% of the panel housing is concentrated in the five largest cities in Bulgaria with Sofia having the leading share of 28.5%.

The implications of the predominance of multi-family blocks are multidimensional:

- *Social:* From a social policy point of view, urban areas with a high concentration of apartment blocks are increasingly seen as being stigmatic of poverty and social exclusion. Currently the buildings contain a social mix with low to middle income households sharing the common areas, however, the market value of this type of real estate has declined due to difficulties in management and maintenance.
- *Technical:* The life expectancy of multi-family panel blocks is 50 years and a significant portion of this stock no longer complies with technical standards. In addition, the region is exposed to earthquake risk, so the physical condition of panel housing raises concerns over its capacity to withstand natural disasters. It is, however, encouraging that the authorities in some countries are aware of this situation: the Romanian Government and local authorities have launched a special program to reinforce the structure of the most badly-affected buildings in Bucharest. .
- *Financial:* The preliminary estimates for the investment needs for rehabilitation and restoration purposes point to figures which will have long term financial implications for the countries. In Bulgaria, it has been estimated that 10% of panel dwellings are in need of urgent repairs and that the average cost of restoring a panel dwelling is €1917 with the total cost of rehabilitation of this part of the stock estimated at EUR 151 million. In Romania, some €940 million is needed for thermal rehabilitation of around 800,000 dwellings according to the government programme for 2002–2007.

6.2.2.1 War-Damaged Housing

There was significant deterioration in the housing stock in war affected countries. In Bosnia and Herzegovina these challenges are particularly significant (see Fig. 6.7). Some 445,000 homes in the country have been partially or totally destroyed, which is more than 37% of pre-war housing stock. According to the Ministry of Refugees and Human Rights the level of reconstruction in housing is some 37%, with close to 164,000 housing units reconstructed till 2004.

About 42% of the housing units that need reconstruction have different scale of damage: almost half (44%) have a devastation level over 75%, 16% have a devastation level between 45% and 65%, some 13% – devastation level of 25–40%, while another 10% have a devastation level lower than 20%. The cost of reconstruction in accordance with minimum housing standards is estimated at BAM 2.5 billion.

In Kosovo/UNMIK, 30% of the housing stock was damaged and in some cases whole villages were totally destroyed. According to the Ministry of Public Construction in Croatia the damaged and demolished housing stock is over 200,000 dwelling units, or close to 13% of the total for the country.



Fig. 6.7 War damage in the centre of Sarajevo

Box 6.1 Formation of Slums in Serbia and Montenegro

Belgrade has a number of ‘unsanitary’ settlements – concentrated areas where people live in poor and substandard conditions. The Institute of Urbanism recently identified 29 slums and 64 unsafe settlements in the city, some along Sava River others – on land designated for major transport routes. In 2003, the City of Belgrade initiated a programme for the construction of 5,000 housing units to address the problems of people living in slums allocating €11.5 million from its budget (Belgrade Urbanism Institute, 2003).

The Roma in Serbia and Montenegro are often concentrated in these settlements. They build housing by themselves using non-durable materials or old redundant railway cars and buses. The majority of their housing units are *de facto* huts, shacks or tent settlements, often hosting refugees. In a number of these settlements connections to water, if any, tend to be illegal; there is no waste collection and no sewerage systems. In Serbia around 70% of Roma households reportedly live in dwellings with no water connection, over 80% with no sewerage and 65% in informal settlements. In Montenegro, 32% of the Roma live in collective centres and 47.6% live in barracks, while 45% lack plumbing and tap water at home (World Bank, 2005).

6.2.3 *Substandard Housing*

Substandard housing is defined as housing with at least one of the following problems: housing built for temporary use; housing units not fulfilling the minimal regulatory requirements specified in building codes; housing without basic utility services (indoor toilet and bathroom); housing in structurally unsound buildings with bad physical conditions. There is no systematic data on the share of substandard housing in different countries and its distribution across tenure. Anecdotal evidence points out to a growing share of housing in unsafe conditions in rural and urban areas as well as in multi-apartment buildings due to systematic disinvestment and deferral of maintenance in the last decades. The evidence in Box 6.1 highlights the dimensions of these problems in the region.

6.3 Tenure Structure and Housing Choice

The distribution of the housing stock by tenure category is characterised by a reduced share of public housing stock and a predominance of owner-occupied housing as presented in Fig. 6.8. In most of the countries across the region, homeownership exceeds 90%, which is well above the 60% average in the European Union (European Academy of the Urban Environment, 1993; European Union, 2003). Although some of this housing might actually function as private rental, responding to pressures from migration and labour market adjustment, the tenure structure in South East Europe is quite polarised leaving a small and residual sector of publicly owned social housing (ranging from close to 9% in Bosnia and Herzegovina to less than 1% in Albania and Former Yugoslav Republic of Macedonia).

Privatisation of public housing assets in South East Europe occurred over a short period of time with a substantial impact on the ownership pattern, particularly in the urban areas. This unprecedented transfer of wealth from public to private ownership was universally implemented in all transition economies as well as in South East Europe. It is not surprising that the privatisation of housing has been very popular among the people and enabled households to acquire a stake in the market economy. As pointed out by Tsenkova (2000), the privatisation of housing assets in South East Europe affected 31% of the stock within 4 years.

According to some estimates, 2.8 million dwellings out of 3.5 million public housing units have been privatised since 1990 (Council of Europe Development Bank, 2004). In Albania, 98% of public housing was transferred to sitting tenants within 1 year by law. In Serbia, the privatisation of the socially-owned stock occurred at 10% of market prices.

In Moldova, dwellings were privatised while the buildings remained under public ownership until 1997 when provisions were introduced to transfer building ownership to the recently established associations of homeowners.

In Bosnia and Herzegovina privatisation was initiated as late as 1998; it affected 19% of the stock consisting of socially-owned apartments, mostly in

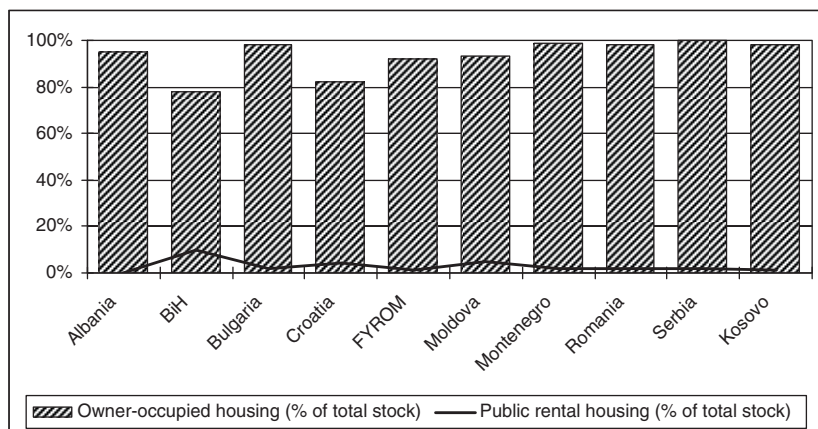


Fig. 6.8 Ownership of housing in South Eastern Europe, 2002. Note: Data for BiH from *The Living Standards Measurement Survey*, Agency for Statistics of Bosnia and Herzegovina (2004); for Kosovo/UNMIK from *The Household Budget Survey*, Statistics Kosovo, 2004. Source: Tsenkova (2005); Council of Europe Development Bank Regional Housing Survey

large urban areas.⁵ The privatisation of socially-owned stock across former Yugoslavia was under way in some of the republic, even under socialism. So with the closure of socially-owned enterprises this transfer was a logic step from an economic point of view. In addition to privatisation, the restitution of property rights to owners of nationalised housing has amplified the impact of privatisation on the current tenure distribution. Although the number of housing units subject to restitution claims in the region is limited, this process had created uncertainties over the enforcement of property rights and pressures to ensure alternative accommodation for affected tenants.

There is some variety of public and private forms of housing in South East European countries. On the basis of processes and agencies related to the production, access, financing and consumption of housing, different forms can be identified: public and private rental, private owner-occupied (single family, condominium/cooperative) and other categories related to housing owned by state institutions, subject to restitutions, etc. (Table 6.4). The division apparently accommodates a number of differences and conceals significant variations within one category. However, this is a common problem in cross-country comparison, which is difficult to overcome especially in transition countries. With the risk of simplifying a very complicated matter the analysis will focus on the main characteristics and common features of different forms of tenure. The emphasis is on similarities among countries rather than differences (Fig. 6.9).

Public rental housing is owned by local governments in most of the countries. Its share is higher in urban areas. It is often funded with municipal or state/public

⁵Before the war, there were 250,000 socially owned apartments in Bosnia and Herzegovina. In Sarajevo, apartments account for 56% of the housing stock, in the seven largest urban areas of the country the share is close to 50%.

Table 6.4 Differences in tenure structure in cities and countries

Country	Year	Public rental housing (% of total at national level)		Private rental housing (% of total at national level)		Owner-occupied housing (% of total at national level)	Owner-occupied housing (% of total in urban areas)	Other form of ownership (% of total at national level)	Other form of ownership (% of total in urban areas)
		Public rental housing (% of total in urban areas)	Public rental housing (% of total at national level)	Private rental housing (% of total in urban areas)	Private rental housing (% of total at national level)				
Albania	2001	0	4	7.1	93.6	88.7	2.4	4.2	
BH	2001	13.4	1.3	1.9	78.3	72.2	11.4	12.5	
Bulgaria	2001	4.2	1.9	-	94.6	-	0.5	-	
Croatia	2001	-	10.8	-	83	-	3.4	-	
FYROM	2002	-	8.9	-	90.4	-	0.1	-	
Moldova	2003	12.1	-	-	94.7	87.3	0.1	-	
Romania	2002	3.4	1.6	2.7	95.1	93.1	1.1	0.8	
Serbia	2002	2.4	2.0	5.0	95.9	92.6	0.0	0.0	
Kosovo/ UNMIK	2002	3.4	-	-	95.1	90.1	3.5	6.5	

Source: Tsenkova (2005); Council of Europe Development Bank Regional Housing

enterprise funds and managed by municipal maintenance companies, who collect the rents and handle tenant agreements. Rents are controlled and determined at the local level with some direction from central government on inflation adjustment. Bulgaria and BiH have a share close to 9% of the national stock with Moldova having 5% on average and a high concentration of public rental housing (12%) in urban areas (Fig. 6.10).

Private rental housing has increased significantly largely as a result of rent control elimination, privatisation and restitution of public housing. Its share is particularly significant in Croatia and Former Yugoslav Republic of Macedonia (close to 11% and 9% respectively). Rents in the sector are determined by the market. Reportedly rental



Fig. 6.9 Panel housing in Chisinau – home to owners and tenants



Fig. 6.10 New housing in Podgorica in upscale neighbourhood rented to foreign institutions

market pressures are considerably high in the capital cities and large urban centres where this type of housing is often sought by foreign diplomats, businesses and expatriates. Private investors are still reluctant to get involved in new rental housing provision. Rental agreements, security of tenure and eviction procedures are specified in various legal acts. It is considered that the sector is larger, but functions to a large extent as part of the informal economy.⁶

Owner-occupied housing is dominant across the region, although its share in urban areas might be lower than official estimates suggest due to leakage into informal private rental. Single-family owner-occupied housing is dominant in smaller cities and rural areas. Usually referred to as self-help housing, this form of housing provision has a long tradition in South East Europe. A number of new developments in suburban areas of large cities built for the higher end of the market also fall into this category. Luxury gated communities have emerged on the outskirts of Sofia, Belgrade, and Chisinau in response to demand.

Condominiums are another option for owner-occupation. Owners have individual rights over the dwelling. Costs are lowered through collective ownership over the land, common elements and shared maintenance. There are significant variations in the quality, structure and type of condominiums. Some are built using traditional construction methods with greater involvement of home owners through 'building cooperatives' during socialist years (Bulgaria, Croatia). Other condominiums have been developed by public construction enterprises in high-rise panel structures. Poor initial quality, deferred maintenance and structural defects have become apparent during the aging of the building. The nature of condominium development and ownership, however, poses some problems related to management and coordination of financial contributions for maintenance (Fig. 6.11).



Fig. 6.11 Illegally constructed housing in Belgrade

⁶In Croatia 49,000 households have a protected rent, another 12,500 rent only a part of a flat, while 50,000 rent informally in the private rental sector (Council of Europe (CoE), 2003b).

In summary, housing choices in the region today are very limited – households need to become homeowners, or rent in the informal private rental sector. Chances to qualify for public housing are marginal, given its small share and low turnover.

6.4 Housing Investment and New Housing Construction

Housing investment has been sharply reduced during the first phase of transition by more than 50%. From 1990 to 1994 there was an alarming drop both in new construction and the share of housing investment as a percentage of GDP in the region. The share of housing investment in GDP is close to 1%; in Serbia this share is close to 2%, while in Former Yugoslav Republic of Macedonia it tends to be 3%, which is similar to the EU average. It is important to note that these estimates exclude war related reconstruction efforts, mostly financed through external donor assistance.

6.4.1 Trends in New Housing Construction

From a *quantitative perspective*, the level of new housing construction has reached historically low levels with rates of new dwellings per 1,000 around half of the level in the 1990s. The decline in Bulgaria, Moldova and Serbia was much more pronounced due to the rapid withdrawal of state support for housing and economic difficulties. Despite the general picture of profound recession observed till the mid-1990s, a rather heterogeneous situation has emerged. Rates of housing production are relatively stable across the region with Former Yugoslav Republic of Macedonia and Croatia maintaining a level close to 2 units per 1,000 residents (Fig. 6.12). The other countries have a lower level of housing production; however, it should be acknowledged that these estimates exclude informal housing construction which is very significant in Serbia, Montenegro and Kosovo/UNMIK.

Most of the new housing (over 80%) is produced by private developers with a significant share of single family housing built mostly in the form of self-help (Fig. 6.13). Moldova is a notable exception with a more significant involvement of public sector agencies in new construction. Although 60% of the new housing is developed by the public sector, this tends to be predominantly housing for sale at market prices. Similar strategies are employed in Former Yugoslav Republic of Macedonia and Romania.

Contrary to expectations, private sector activity in housing construction was much less affected by the recession, sharply rising prices, inflation and falling real incomes. In South East Europe the share of privately developed housing has remained relatively stable which shows its strength vis-à-vis its public sector counterpart in adverse economic conditions and elimination of subsidies. Another important feature is related to the shift from new housing construction to renovation and

rehabilitation of existing housing. Though production and investment in housing has declined, anecdotal evidence suggests that private investment in improvement of existing housing has increased (most of the lending activity refers to these types of loans), which might be offsetting declines in new construction to a considerable degree. The decline in new construction might be due to underreporting and failure to meet building inspection standards for registration of new dwellings. For example, recent census data indicate that 261,753 dwellings have been built in Bulgaria between 1991 and 2001. Meanwhile construction data reports new housing for the

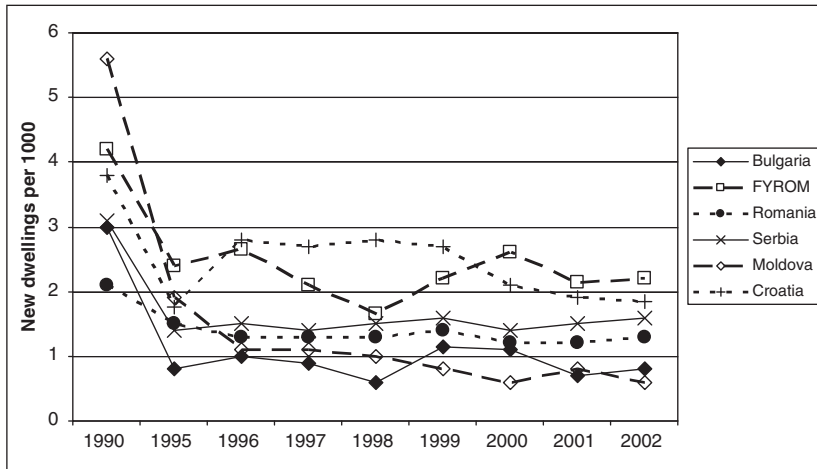


Fig. 6.12 Rates of new construction in South East Europe. *Source:* Tsenkova (2005); Council of Europe Development Bank Regional Housing Survey

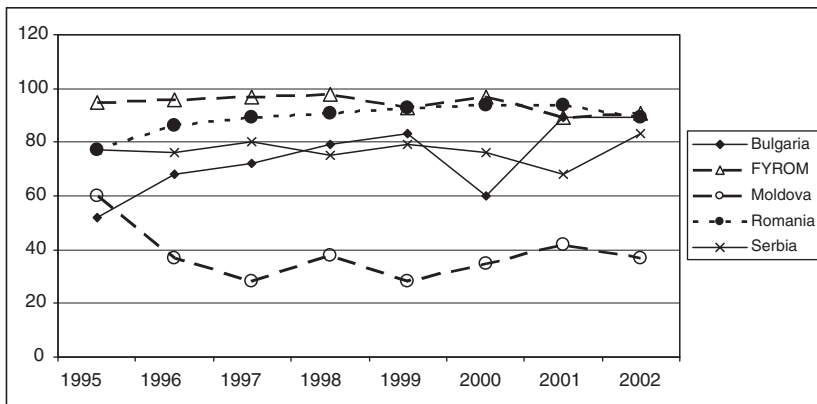


Fig. 6.13 Rates of private new construction in South East Europe. *Source:* Tsenkova (2005); Council of Europe Development Bank Regional Housing Survey

same period to be in the range of 103,000 suggesting that close to 150,000 newly built dwellings are used as permanent residence without being registered.

6.4.2 *Informal Housing*

Reportedly, a significant share of new housing across the region is illegal leading to the formation of informal settlements in Tirana, Belgrade, Pristina and Sarajevo. Informal settlements vary in terms of standard (from slums to luxurious residences), location (from suburbs to city cores and protected areas) and size (from several small units to over 50,000 residents' settlements). Among other objective reasons, the flow of refugees and DPs has contributed to informal construction in larger cities. Often these areas lack roads, basic infrastructure and social facilities (schools, hospitals) thus threatening the public health of large urban centres in the region. Skopje, for example, has 27 informal housing settlements and in Tirana 45% of the population lives in informal settlements (Box 6.2).

The driving forces as well as forms of informal housing settlement formation are further discussed in chapter nine. This illegality of need is both a problem and a solution to the shortage of affordable housing in urban areas in some parts of the region. Although this might be the general explanation, the reality is more complex. In Belgrade more than 146,000 buildings are illegally constructed, while in Sarajevo the number is estimated at 20,000,⁷ often attributed to inefficient planning and land management practices.

Box 6.2 The Scale of Informal Housing Construction in Tirana

The estimated population of Tirana region has grown from 374,000 in 1990 to 618,000 in 1999. Close to 45% of the population lives in informal settlements indicated with dark grey on the land use map in Fig. 6.14. Incoming villagers would occupy a plot of land and start building a house, adding floors and finishing construction over time. As a result, Bathore, an attractive hillside on the outskirts of Tirana, is a new neighbourhood of illegal three-storey houses with no roads, sewage, electricity, schools or medical facilities. Those who occupied land first sell parts to newcomers illegally. The municipality with the assistance of the World Bank, has launched the Urban Land Management Project, to provide primary and secondary infrastructure in these settlements with a planned 20% contribution by the inhabitants to its cost.

Source: ECE (2002)

⁷Most municipalities do not have new master plans, which contributes to corrupt practices and *ad hoc* decision-making in the development permit approval process. To acquire a land use permit, a developer must pay a fee to purchase occupancy rights and access to public utilities. In Sarajevo, a fee ranges between 21 and 43 KM per square meter, depending on proximity to the city centre; it is paid to the City Development Institute which passes it on to the canton (Rabenhorst, 2000).

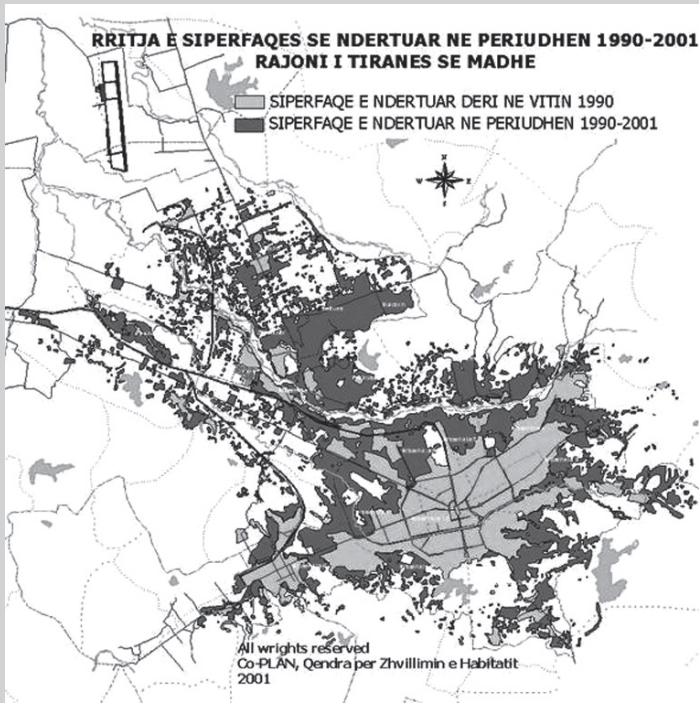


Fig. 6.14 Urban growth and informal settlement formation in Tirana

6.4.3 Constraints for New Housing Development

Notwithstanding progress, housing production capacity in the region remains limited because:

- subsidies for new housing construction are being eliminated
- the lack of serviced land has resulted in high land prices in major cities
- there is an absence of financing (both financial intermediaries and mortgage markets) due to high inflation and the lack of market-driven prices
- cash payments have become the basis for financing home construction in the absence of alternative financing and the unattractiveness of mortgages financed at market rates
- private builders are servicing mainly the upper end of the housing market and little capability is being developed to serve the general market
- the private development industry for moderately-priced housing is unlikely to evolve on any appreciable scale until legal, tax and financial incentives are introduced.

The production of serviced residential land is severely constrained by a cumbersome and lengthy approvals process, as well as by local governments' lack of capacity to finance necessary infrastructure. Typically, cash-constrained municipalities will have no budget allocation for the capital intensive infrastructure work, thus shifting prohibitive costs onto developers and/or consumers. In Serbia and Montenegro urban construction land is still state-owned which creates substantial supply constraints. In Moldova urban land is auctioned by municipalities, reportedly under procedures that are not very transparent. Overall, this has led to high cost of serviced land on the market and fragmented nature of land supply, particularly in large cities with greater demand.

6.5 Affordability of Housing

Income is usually taken as an overall index of the demand and purchasing power of households, while the house price is taken as an index of the type of housing supply available. Data on income and house prices in the region are very limited and not necessarily reliable. There are considerable gaps in data on emerging housing markets and a lack of adequate comparable information on housing market dynamics. There are no monitoring systems in place to reflect the number of housing transactions as well as average prices in local markets. A lot more information is needed on the national and local level to analyse spatial differentiation and affordability of housing in a systematic manner. Given the information constraints, several indicators can be used to characterise affordability – income differentiation, average housing costs, average prices in the capital cities and price-to-income ratio.

6.5.1 Income Differentiation

Economic recession has hit the countries of South East Europe and economic recovery is projected to be very slow. Within that context, income disparities have increased rapidly between the retired, the unemployed, the unskilled workers with part-time jobs on one hand, and the well paid professionals in the banking sector and senior executives in private firms on the other. Wages in the public sector are controlled and have failed to reach the rate of inflation. Income dynamics using the average income level in 1995 as a benchmark are presented in Fig. 6.15. Although there seems to be a positive trend in income growth, just two countries – Romania and Serbia – have exceeded 1995 income levels. Decline in Bulgaria (1997) and Moldova (1999) has been particularly steep. These trends have a significant impact on the housing market and affect the ability of households to shoulder increases in housing costs.

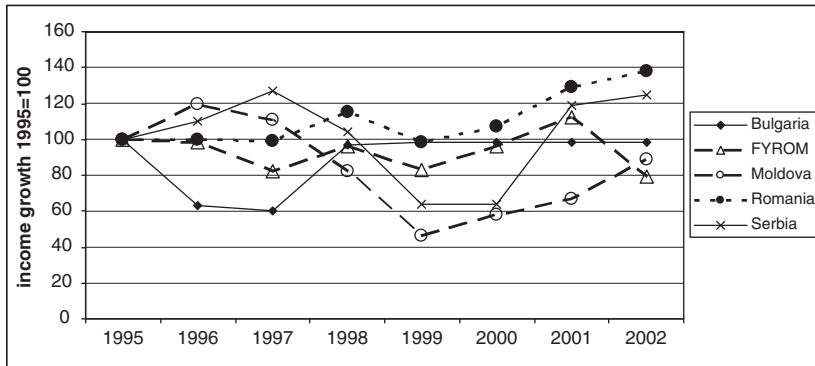


Fig. 6.15 Income dynamics in selected countries in South East Europe. *Source:* Tsenkova (2005); Council of Europe Development Bank Regional Housing Survey

6.5.2 Housing Costs

Despite the economic and social hardships, most households in South East Europe own their housing without the burden of a mortgage. In most cases this is the most significant asset for the household, which in some buoyant markets translates into substantial wealth 10–12 times the average annual household income. The housing costs for 2003 in selected countries in the region show a distorted pattern (see Fig. 6.16). First, housing costs consume less than 8% of the household budget (Moldova is a notable exception), which is much lower than the European Union average. Second, expenditure on utilities is much higher than spending on maintenance and other housing related costs with a significant imbalance in Serbia and Former Yugoslav Republic of Macedonia. The consequences are no doubt further deterioration in the quality of housing and failure to mobilise resources to maintain significant household assets.

Most of the households entering the market will have to house themselves in the private rental sector. The size of the rental market is considerably small, under three percent on average, with virtually no vacancy rates. Rents in urban areas are high and can reach up to 50% of the monthly income. Most of the residential units in downtown areas end up as office space, which reduces the availability of units even further.

6.5.3 Prices in Emerging Housing Markets

Research indicates that less than 1% of the housing stock is traded per year (Buckley and Tsenkova, 2001; Merrill et al., 2003, 2004). Housing market activity includes mostly property transactions of privatised/restituted housing and exchanges within the existing owner-occupied stock. Dwellings currently under construction

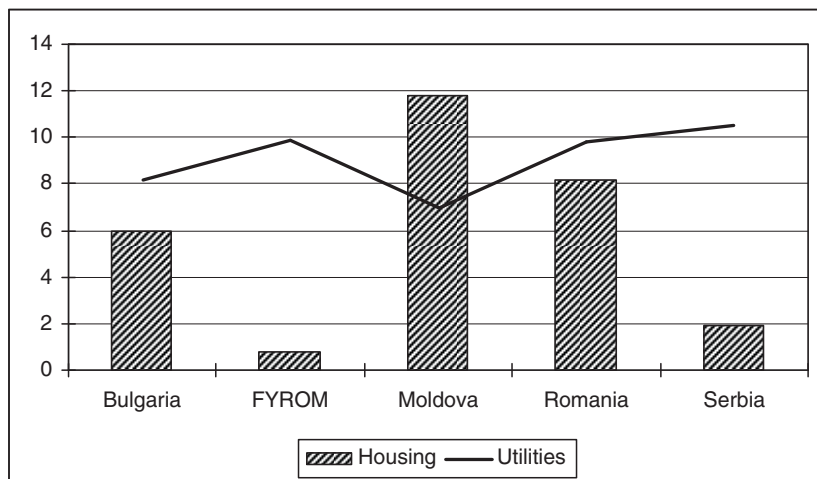


Fig. 6.16 Housing costs in selected countries in South East Europe. *Source:* Tsenkova (2005); Council of Europe Development Bank Regional Housing Survey

(many builders sell houses and apartments before completion) are excluded from this estimate.

Previous uniformity of land and house prices has given way to a fairly diversified and sophisticated system reflecting location, quality, accessibility and level of services. This has resulted in the formation of distinct housing submarkets in the urban structure of countries in transition. It is possible to identify the following emerging submarkets:

- city centre
- peripheral housing estates
- prestigious neighbourhoods.⁸

The general trend is towards differentiation of the housing market reflected in house price maps of urban areas. Housing demand in the capital cities of countries affected by war has influenced house prices considerably, widening the disparities in local and regional housing submarkets. In the other countries – notably Bulgaria, Romania and Moldova – house prices denominated in US \$ have remained relatively stable since 1997 in the range of US \$250–400 at the high end of the housing market (Council of Europe Development Bank, 2004). The aggregate data suggests that the price gap between inner-city housing and apartments in the peripheral housing estates is in the range of 25–40% (Table 6.5) (Fig. 6.17).

⁸These submarkets are not homogeneous, but incorporate different types of housing which can be further grouped according to structural characteristics (apartments, single-family housing), construction (brick vs panel structures), and age (pre-war, industrialised housing, etc.). These characteristics in return are reflected in the set of prices or rents (Tsenkova, 1997).

Table 6.5 Housing submarkets in the capital cities in South East Europe

Capital cities housing submarkets	Tirana	Sarajevo	Sofia	Zagreb	Skopje	Chisinau	Bucharest	Belgrade	Podgorica
City centre	600	750	500	1,400	960	480	1,000	1,400	800
Housing estates	400	500	300	1,200	740	408	800	900	600
Prestigious neighbourhoods	800	900	600	1,600	1,000	450	1,250	1,500	1,200
New housing	650	–	500	1,300	1,000	450	1,100	1,200	1,200

Prices in € per sq m, 2004
Source: Tsenkova (2005); Council of Europe Development Bank Regional Housing



Fig. 6.17 House prices in Belgrade city centre are the highest in the region

There is an erratic market for flats, which fetch very high prices compared to income, particularly in Belgrade and Zagreb with prices ranging from €90–110,000. Bucharest and Skopje follow these prices quite closely although average income is close to one third of the income in Croatia. The market for single family homes, although much more limited has surprisingly similar process. In Bucharest and Chisinau single family homes sell for €120–150,000. In Croatia, with the most buoyant market in the region, prices in Zagreb tend to be similar to the prices in Belgrade, one of the poorest countries in the region.

Inflation and the lack of investment opportunities elsewhere in the economy make property and housing markets financially attractive. Revenue from the informal sector reportedly is channelled into housing pushing prices even further. New housing is more expensive due to its better quality of materials and finishing works, but also due to its location, usually in attractive neighbourhoods where the cost of land tends to be higher. Inter views in Belgrade and Skopje indicate that cost of self-built housing is much lower (by 30–50%). Notwithstanding preferences for homeownership, households throughout the region overwhelmingly do not have the income and savings to purchase a home. A recent survey of mortgage markets in the region is an excellent illustration of these constraints. Average house price-to-income data presented in Fig. 6.18 show that in Serbia, Montenegro and Bosnia-Herzegovina the ratio exceeds the average for the Western Balkans of 13.7%. Croatia, Former Yugoslav Republic of Macedonia and Albania have a more favourable situation, but values tend to be much higher compared to the average for the European Union. These high price-to-income ratios, coupled with restricted mortgage lending, indicate a growing affordability problem in the homeownership market. Affordability constraints related to the lack of accessible housing finance are reviewed in more detail in chapter eight.

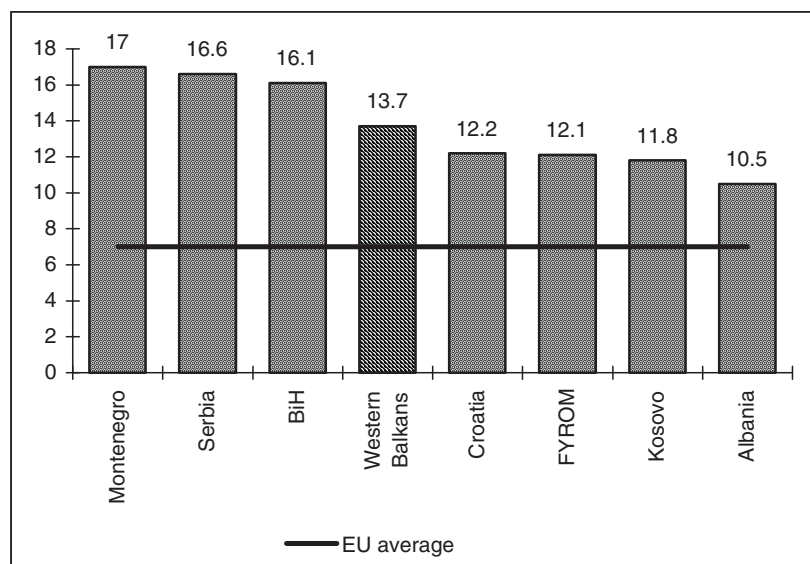


Fig. 6.18 House price-to-income ratio in the region, 2005. *Source:* Registra, Analystas and Imantra (2005b)

6.6 Concluding Comments

Housing represents a vast potential source of economic growth for the countries in South East Europe. Despite the overall surplus of housing across the region, the mismatch between household structure and the existing housing stock is significant, particularly in Romania, Serbia and Kosovo/UNMIK. With the quality and quantity backlogs in the sector, large amounts of investments for the years to come would be necessary to improve the housing conditions. Indeed, housing quality is very much related to improved access to safe drinking water and sewer, particularly in rural communities. Housing privatisation applied in almost universal manner across the region has transferred significant national assets in private ownership. While this has boosted private investment in the sector, multi-apartment housing in urban areas has deteriorated due to lack of effective legal, organisational and financial measures for its management.

Housing supply is dominated by private sector construction due to strong self-help and speculative provision of new housing. Tenure choices are limited due to the polarised tenure structure and growing affordability constraints. Low wages and employment uncertainty coupled with escalating housing costs and mortgage rates have reduced effective housing demand. The gap between income and entry costs in the homeownership market has increased dramatically compared to socialist years when homeownership was universally affordable.

Chapter 7

Housing Privatisation, Housing Management and Public Housing

This chapter provides an overview of housing reforms and their impact on the existing housing with a particular emphasis on progress towards the establishment of a competitive system of housing management. This is one of the critical areas for policy intervention due to the high share of multi-family housing in urban areas across the region. The argument advanced here is that housing management has been particularly slow in adjusting to the new market reality, both in the private and public housing stock. The challenges are multi-dimensional – technical, social and financial, making the task difficult. The comparative analysis explores the changes in housing management systems and some of the constraints for their efficient operation in the housing sector.

7.1 Privatisation and Housing Management: A Troubled Relationship

Housing management in multi-apartment buildings in South East Europe is a major challenge. Some estimates suggest that in the region out of 20 million housing units 30% are found in multi-family housing, mostly concentrated in urban areas. The asset management of this part of the stock is critical for the sustainable provision of affordable housing in urban areas. Privatisation and restitution were important factors influencing the problems of housing management. Out of 3.5 million public housing units, 2.8 million were privatised to sitting tenants. This represents close to 15% of the total stock, 30–40% of the urban housing and 40–50% of multi-apartment housing (Hegedüs and Teller, 2003).

Issues related to deteriorating quality in this part of the stock, discussed earlier, as well as the scale of some multi-apartment developments poses a particular challenge in terms of developing a common strategy for management and renovation (Fig. 7.1). While this might have been easier under the socialist system of state/enterprise funding and command decision-making, the coordination and consensus building on priorities among more than 200 households could be insurmountable challenge today.



Fig. 7.1 Multi-apartment development: The gate of Chisinau

7.1.1 The Institutional Framework for Housing Management

7.1.1.1 Legacy of the Old System of Housing Management

Most of the countries in the region inherited a system where municipal (state owned) maintenance companies were managing both the public and private multi-apartment housing stock. The fees for day-to-day repairs and improvements were nationally regulated with little differentiation with respect to quality, location or price of the dwelling. Typically monthly charges were collected on the basis of a fixed rate per sq m of dwelling space with some adjustment for the type of construction and number of storeys in the building. A wide range of detailed regulations established life cycle assessment rules and schedules for investment in capital repairs, but in practice little work in that regard was carried out (Hegedüs et al., 1996).

Maintenance companies, mostly municipal or enterprise-owned, would typically divide the urban area and carry out a range of construction, utility repair and housing maintenance work. These companies were large and economies of scale were essential for their operations. Housing management and maintenance was not the core of their business; the activity was not self-funded and was subsidised by frequent transfer of funds from other businesses. In Croatia, before the transition, 70% of the total housing stock was maintained by publicly owned companies, while in Bulgaria this share was close to 90% (Council of Europe (CoE), 2003b).

In Former Yugoslavia the individual units were not registered in the Land Books, representation of tenants in management companies was not legally defined. In other countries, such as Bulgaria and Romania, if owners' associations existed they had no real control over management decisions and/or funding. The public maintenance companies collected the user charges for utilities from the owners and/or tenants for common areas as well as for the buildings where individual metering devices did not exist (Moldova and Albania). Since new housing construction was a priority, little was allocated for investment in routine maintenance and renewal.

The legacy of centralised extensively subsidised housing management had important consequences:

- no competition in the provision of maintenance services
- no control over management on behalf of private owners
- deferred maintenance and no reserve fund to absorb cumulative costs
- lack of financial discipline and cost recovery mechanisms.

7.1.1.2 The New System of Housing Management

Housing reforms across the region in the last decade have created new conditions for housing management. A series of legal, institutional and financial reforms have been carried out, but the transformation process has failed to define a system that is efficient. Essentially the transition from a centralised and excessively subsidised system to one based on market competition, private ownership and cost recovery for housing services has been particularly difficult.

Legal reforms introduced in the mid-1990s provided the legal framework for the organisation of owners, as well as procedures for the enforcement of rules and obligations. In certain countries (Romania, Albania, Moldova and Montenegro) the new associations could act as a legal entity, in other cases, the new institutions did not enjoy these advantages. The new laws defined with various degrees of detail rights and responsibilities of ownership, and the procedures of sharing common costs. Several barriers to the implementation of these laws exist. First, individual owners were reluctant to establish new organisations and assume a wide range of responsibilities without the appropriate legislation.¹ Second, the administrative procedure of establishing a condominium as a legal entity was quite complicated and costly. Third, the laws typically provided largely inadequate guidelines regarding voting procedures, cost-sharing mechanisms and enforcement possibilities.

The municipal maintenance companies also faced a different situation. The increase in user charges (electricity, water, district heating, etc.) and the decrease in subsidies were financially stringent. This problem crowded out the spending on regular maintenance and emergent repairs. Without state or enterprise subsidies, and poor collection of regular maintenance charges from owners, the typical reaction was 'low fee – no service' which accelerated the deterioration process in multi-apartment buildings. In some countries municipal maintenance companies were divided into smaller units, privatised, or restructured in accordance with construction sector policies. This forced institutions to seek internal efficiency gains in order to operate exclusively without subsidies, although reportedly some emergency grants are provided (e.g. in Podgorica, Chisinau, Belgrade). Housing maintenance is significantly under funded in the region; in some countries the tariffs cover only 20–40% of the costs required for proper maintenance (Council of Europe Development Bank, 2004).

¹The privatisation to sitting tenants preceded the Law on Condominiums (e.g. Albania, BiH and Moldova). In Moldova, during the privatisation period, the apartments were transferred into private ownership, whereas the buildings remained state owned. After 1997 also the building were transferred to the homeowners' associations.

7.1.2 The Evolving Legal Framework for Housing Management

Most countries in the region have introduced condominium ownership or its equivalent based on historical interpretation of multi-apartment ownership in existing property legislation. While there are differences on the theme, condominium ownership is based on the absolute ownership of a unit, plus an undivided interest in the ownership of the common elements owned jointly with the other condominium unit owners (e.g. roof, elevator, building land, etc). Each owner may have a separate mortgage for his or her individual unit and is individually responsible for making the payments and real estate taxes on it. In addition, owners contribute to the funding of common expenses for repair of structural elements, building installations and utility charges for common areas.

The matrix in Table 7.1 summarises the developments in the area of multi-apartment management in South East Europe. The new legislation typically defines *Homeowners' Associations (HOAs) or Condominiums* as the institutional entity which manages multi-apartment housing, meets financial obligations, initiates contracts and renewal projects. Most HOAs are not registered as legal entities, thus, behind every contract there are individual owners. Although the new condominium legislation in Albania, Moldova and Romania stipulates mandatory HOAs, only 20% of the condominiums in Romania and 15% of the ones in Moldova have established such associations as legal entities. In Albania, progress in that regard has been very limited (Box 7.1).

While costs are expected to be borne by the owners, it is important to state that the new *Condominium Laws*, or similar provisions in countries across the region, differentiate between decisions with low cost consequence and decisions on higher investments, such as renovations. The first requires normally a simple majority of votes, the latter a higher share of support (e.g. 67% of owners in Romania, 75% in Albania). In cases where HOAs have the right to sue the associated owners for non-payments (Moldova, Bulgaria, Serbia) they possess a tool to enforce the decisions, but the procedure tends to be very long and expensive.

The matrix in Table 7.1 indicates a diversity of experiences, however, most countries in the region have a significant involvement of public management and maintenance companies, in Serbia and BiH the process is even more regulated in terms of providers and costs. In Bulgaria, Albania, Romania and to some extent in Croatia, HOAs have the right to contract any companies or private person to carry out maintenance. In these cases competition has had a positive effect on the performance of the maintenance companies (public and private) with respect to prices and quality. In countries where the market was liberalised, there is an overall lack of professional management companies which are licensed to carry out technical assessment and asset management. The process is also challenged by the lack of organisational and managerial experience of the newly elected 'representatives' of the HOA or the lack of complete technical and engineering documentation of the buildings.

Table 7.1 Major determinants of housing management in South East Europe

Country	Legislation	Management responsibility	Maintenance	Costs/financing
Albania	Law on Condominiums 1993	Condominiums/ non-legal entity; compulsory	Contracted mostly to public companies/self help	Homeowners/ proportional share
Bulgaria	Regulation on management of condominiums (recent changes in 2002)	Condominiums	Contracted to private companies	Homeowners/ proportional share
Croatia	Law on Property and Ordinance on building maintenance, Law on Contractual Relations	Non-legal entity Co-owners	Public enterprises/ or registered private firms	
BiH	Apartment privatisation law	Co-owners under a contract with a public management company	Mandatory maintenance agreement A Public enterprises; mandatory maintenance	Homeowners/ regulated charges for maintenance
Romania	Housing Act 1996	Condominiums; compulsory	Contracted mostly to private companies	
Moldova	Condominium Law 2000 Government decision on repair, maintenance and payment for public utilities	Condominiums; compulsory	Contracted to municipal companies/self help	Homeowners/ proportional share
FYR Macedonia	Law on property and other landlord rights 2001, Housing Law 1998	Co-owners under agreement on Mutual relations Resident council mandatory	Private companies	Homeowners
Serbia		Co-owners; compulsory maintenance contract	Public maintenance companies/ regional differences	Homeowners/ minimum maintenance charges regulated
Montenegro	Law on floor property	Co-owners	Public maintenance companies/private in smaller cities	

Box 7.1 Managing Practices in Croatia, Bosnia and Herzegovina, Romania and Serbia

In **Croatia**, management and maintenance of apartment houses, including regular operation, improvements and other works, are regulated by the *Ordinance on Buildings Maintenance*. Maintenance of apartment houses is financed by the co-owners on the basis of the contract with public or private firms registered for house management and maintenance. Only registered companies can provide service for large buildings (Council of Europe, 2001).

In **Bosnia and Herzegovina**, the *Law on Privatization of Socially Owned Apartments* provides no guidance on organisation or management of apartment buildings after privatisation. Rather, it authorizes the cantons to pass regulations on the operation of housing after privatisation. The first such regulation has been passed in Tuzla and is expected to be a model for other cantons. It states that for a period of 3 years the new owners will pay a monthly fee to the former owner or seller for maintenance and repair of the common property of the building, and only the former owner can decide how to spend the funds. The system effectively strips the new owners of the right to manage their property (Rabenhorst, 2000).

According to the *Housing Act of 1996*, in **Romania**, the management of multi-unit buildings is the responsibility of the association of owners (HOA). The associations' rights and obligations are: approving and amending the budget, collecting financial contributions, imposing penalties in case of late payments, concluding contracts and most importantly, managing, maintaining, repairing, replacing and modifying the common parts of the buildings. The HOA also approves or amends decisions on rules and regulations, monitors the condition of the building and keeps the building's technical logbook updated. Legal or natural persons, associations, public agencies or specialised companies appointed by HOA can manage the condominium (ECE, 2000b).

In **Serbia**, in order to carry out the maintenance, the 'Owners Assembly/Council' can contract public or other companies for housing management and maintenance. If no maintenance is provided, the municipality will appoint a public municipal company charging the account of the apartment building or directly its tenants/owners through common bill for other public services such as rent for building land, garbage, ecological protection, central heating, water, sewerage and electricity in common areas. The supervision is delegated to the Municipal Housing Department. Penalties are fixed from 100 to 10,000 Dinars (from €1.7 to €167) for different types of violation (Council of Europe, 2003b).

In summary, recent experience across the region indicates that a fair amount of effort was directed to the improvement of the legal framework. However, without an efficient enforcement system its effects are questionable. Albania, Moldova and Montenegro are prime examples where ambiguity in the legislation, coupled with economic difficulties of the owners has created cumulative debts and no action to resolve the problems with asset management.

7.1.3 The Triple Challenge for Asset Management

7.1.3.1 Technical Conditions

The collective form of state and enterprise housing provision in South East Europe in the past has an important effect on housing management, not only in terms of institutions and legal challenges, but more importantly related to the technical conditions of multi-apartment housing. Every observer in the region concludes that the deterioration process in parts of the urban stock has reached a critical stage. Most of the buildings were constructed in the 1970s and 1980s to respond to rapid urban growth and migration to the cities. Panel technologies featured prominently in Bulgaria, Moldova and Romania, while former Yugoslavia experimented with industrialised methods of high rise construction. Although most urban multi-apartment housing is new, its initial quality was not very high. Subsequently, inadequate investment in maintenance as well as deferred capital repairs have aggravated the technical problems with leaking roofs, obsolete installations, elevators and poor wall insulation. Anecdotal evidence reports cases of falling walls, balconies, chimneys, etc. In some cases buildings have unsafe and hazardous conditions which clearly do not meet the Building Code requirements. The function of inspecting and initiating action is usually vested with central inspectorates (Romania, Former Yugoslav Republic of Macedonia, and Albania), in practice little is done to enforce these rules.

The quality of the multi-apartment housing in South Eastern Europe is mixed; there are no assessments or reliable information about the level of investments needed in the sector. A recent study carried out by the World Health Organization found there to be a high incidence of respiratory problems in panel-built housing in some transition countries, likely to be associated with poor housing conditions. The health of residents of multi-family housing may also be adversely affected by dwelling size and layout; internal air quality; temperature; infestation with pests; and exposure to noise. The condition of the housing stock is directly related to provision of public sector services such as water, heating, garbage collection. The funding gap for these companies gradually added up to lack of working and investment capital. Depending on the magnitude of the financial problems, the array of adaptive actions included reducing/eliminating expansion investments, postponing replacement, deferring maintenance, and reducing services. These strategies have had a detrimental impact on the quality of housing. The proper maintenance and renewal of the housing stock should be connected to the improved performance of utility companies (Figs. 7.2 and 7.3).

7.1.3.2 Social and Economic Constraints

In most of the cases multi-apartment buildings have a social mix, which is inherited from the previous system of housing allocation. Income and labour market inequalities in recent years have changed dramatically the socio-economic profile of these egalitarian societies. Differences in market prices of housing properties have



Fig. 7.2 Multi-apartment housing built in the early 1990s in Pristina with visible signs of deterioration

become one of the largest sources of inequality in urban areas – some owning an asset, others – a liability with large requirements for investment in renewal. A characteristic feature of the ‘nations of homeowners’ in South East Europe is the lack of debt related to their housing assets. .

The transition and the war in the Balkans have led to an impoverishment of the population. One of the reasons for the poor maintenance of multi-apartment buildings lies with the difficult financial situation of tenants and owners. In most cases, the cost of housing related services has increased in real terms, but quite unevenly: energy costs and central heating costs increased the most, crowding out other expenditures. The prices of housing related services increased at a period of economic decline, which in the absence of an adequate system for social support resulted in accumulated arrears. In the absence of support for housing and utility services, more affluent owners have continued to subsidise their neighbours and to finance urgent repairs. Others have just cut back on individual consumption, such as central heating.

Despite different coping mechanisms, arrears are wide spread and the lack of payment discipline – common (see Box 7.2). Studies have reported lack of respect for the law as well as refusal to pay regular contributions for the maintenance and modernisation of common areas in privatised residential buildings (ECE, 2002, 2005).

The problem of deferred maintenance is not only related to affordability (ability to pay), but also to weak willingness to pay, because many home owners who received privatised dwellings in the early 1990s do not understand that they have an asset that can increase or decrease in value. Many of them also fail to understand that ownership carries obligations as well as rights. Property values are



Fig. 7.3 Low income multi-apartment homes in Skopje

also affected by uncertainties about ownership of, and responsibility for, the building and the immediate environment.

7.1.3.3 Financial Constraints

Lack of adequate financing is considered a major constraint for asset management. While recent years have introduced a budgetary discipline and more transparent and accountable budgetary processes, chronic underinvestment in maintenance has left owners with major technical challenges.

As Fig. 7.5 indicates investment is cyclical and the requirements for major repairs and improvements after 10 years grow exponentially. In most of the cases multi-apartment buildings have reached this critical stage in the lifecycle assessment where a major infusion of capital will be needed to bring them back to standards. The buildings have poor quality and the current stream of revenues does not ensure sufficient

Box 7.2 Cumulative Debt for Utilities in Moldova

The level of payment for housing services in Chisinau is some 80%. The debts to service suppliers in 1998 exceeded 44 million lei. The number of 'debtor-apartments' registered and their distribution is presented in the chart below. The data analysis shows that the majority of debtors pay the services with a delay of 1–2 months, having debts up to 500 lei. There are categories that practically stopped paying for services accumulating debt in an amount exceeding 2,000–3,000 lei (Fig. 7.4).

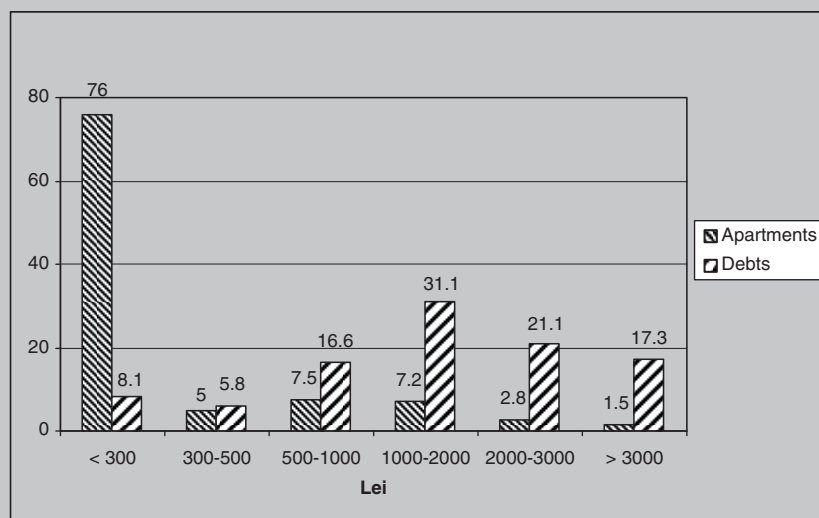


Fig. 7.4 Distribution of debts for housing services in Chisinau (%). Source: NAHRES Moldova (1998)

funds for renovation and improvement of installation and the building envelope (roof, foundations, elevation, etc). Renovation planning is also problematic within the context of unclear financial and management responsibilities. Furthermore, in addition to the traditional technical and organisational challenges, it is difficult to borrow funds for major improvements, which requires audited financial statements of the condominium and collateral.

Banks often request individual owners to sign a mortgage or a loan contract, which makes the process extremely cumbersome and costly. Lending institutions have not developed any products for renovation of multi-apartment housing and the high interest rates certainly discourage borrowing. The financing of rehabilitation requires specially designed credit lines and some incentives (tax exemptions, rebates, etc) to facilitate the process. The key issue is mobilisation of funds, savings (including intergenerational savings), loans and mortgages to pay for rehabilitation

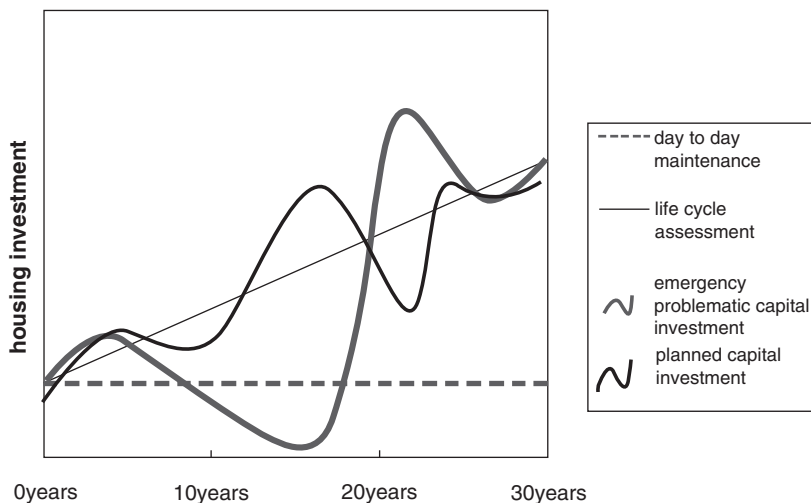


Fig. 7.5 Housing investment over the lifecycle of buildings

and renewal. Various mechanisms can be used to encourage financial institutions to develop competitive products (state guarantees, shallow subsidies, insurance). This needs to be complemented by targeted subsidies and reversed mortgages for low income owners to allow renovation measures to proceed at a large scale for the whole building.

In summary, arresting the cycle of decline in multi-apartment housing requires a cluster of policy measures that enable more effective asset management. Figure 7.6 stylistically represents the different stages in the cycle – poor technical conditions, social and economic difficulties of residents, overcrowding, poverty and deterioration of housing quality. All these phenomena feed into the next stages where poverty and deprivation becomes an attribute of particular neighbourhoods. There are signs that some of the housing estates in South East Europe manifest some of these features.

Prices have declined and more affluent owners fearful of theft and vandalism are moving away. This new phenomenon is associated with increasing segregation of marginalised people on housing estates. These manifestations of social exclusion are related to the creation of ‘social ghettos’, and correspondingly, the isolation of marginal communities in substandard housing. Efforts to combat social exclusion are essential for the vitality of cities and urban neighbourhoods across the region and need to be integrated in future housing and social cohesion policies. Specifically, it is important to prevent the marginalisation of weaker groups as a result of changes in the housing market and/or inefficient legal, institutional and financial framework to manage multi-apartment housing.

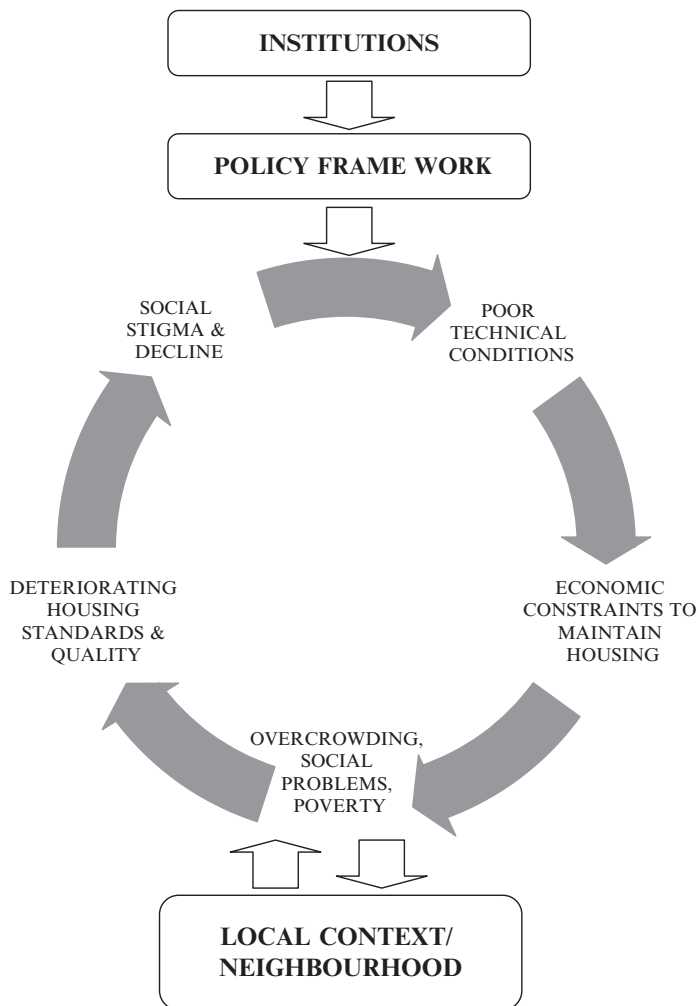


Fig. 7.6 Arresting the decline in housing estates through better asset management

7.2 Public Rental Housing: Challenges and Future Prospects

Countries in South East Europe have the legacy of a controlled ‘command’ housing system for the provision of public rental housing. The system was based on low housing costs, centralised production and state or enterprise control over housing allocation. The bureaucratic allocation was administered through ‘waiting lists’ for housing maintained by municipal housing authorities and, in the case of Serbia and Former Yugoslav Republic of Macedonia, by public enterprises. In the context of

this shift away from direct state intervention to market-based provision of housing services in the 1990s, municipalities have emerged as the new social landlords with major responsibilities for housing the poor and disadvantaged (ECE, 2001, 2005).

In most countries, as a result of mass privatisation, the size of the social rented sector has been reduced mostly through transfer to sitting tenants (free of charge, through vouchers or nominal fee). While these populist policies have been equally attractive across the region, governments have been reluctant to introduce less popular measures such as cost recovery of rents or deregulation of maintenance and management (Lux, 2003; Tsenkova, 2004b).

7.2.1 Regional Perspective on Public Rental Housing

Despite rapid privatisation, the public rental sector in the region includes 462,820 units. South East European countries have chosen different strategies to address major issues related to access, management and financing of social rented housing (see Fig. 7.7). While these strategies have not been explored in a systematic manner, there seems to be a consensus that the countries are moving in the same direction – towards residualisation. The term public housing is used to define the social rented sector. In some countries in the region (Romania and Serbia) social housing at the moment is a subcategory of municipal housing.

The analysis starts with a review of the three critical elements characterising the public housing sector – ownership, rent and allocation policies in a comparative perspective. These are summarised in Table 7.2.



Fig. 7.7 Tenants or owners: Illegal owner occupied housing in Kosovo/UNMIK

Table 7.2 Major characteristics of public housing in the region

	Public housing (% of total)	Number of units (thousands)	Management and maintenance	Allocation	Rents
Bulgaria	3.00	110.92	Municipal maintenance firms	Targeted based on four categories; tenants in rest. property have a priority	Locally controlled with some central guidance
Croatia	2.80	51.84	Enterprises with municipality as majority shareholder	Poorly targeted, previous tenants	Centrally controlled
Moldova	5.00	64.56	Municipal maintenance firms	Less targeted	Centrally controlled
FYR Macedonia	0.60	4.19	Central public enterprise for management of residential and commercial real estate	Less targeted, various categories including government employees	Centrally controlled
Romania	2.20	178.36	Municipal maintenance firms with some budgetary org. in larger towns	Targeted, mostly socially disadvantaged; tenants in rest. property	Centrally regulated, set at 25% of tenant income
Serbia	2.10	52.95	Municipal maintenance firms	Less targeted, various categories including young families, public officials	Centrally controlled

7.3 Changing Institutional Context

Historically municipalities, state institutions and enterprises have provided public housing in the region with the State playing a much more significant role in Moldova and Albania. Privatisation has reduced the size of publicly owned and/or socially-owned housing; in addition restitution in several countries (Albania, Bulgaria, Croatia and Romania) has affected the size of the sector placing a time limit on rental agreements under protective arrangements. With the exception of BiH and Former Yugoslav Republic of Macedonia, countries do not seem to have a moratorium on housing privatisation. In Serbia and Montenegro newly built units with capital from the Solidarity Fund continue to be privatised.

Ownership is vested with municipalities with the exception of Former Yugoslav Republic of Macedonia where public rental housing was transferred to a state enterprise – Public Enterprise for Management of Residential and Commercial

Real Estate. In the privatisation aftermath, most municipalities are left with housing stock of substandard quality, largely in need of extensive repair. Reportedly units are much smaller than the average (44 sq m in Romania, 56 sq m in Bulgaria) located in multi-apartment housing, often with mixed ownership.

7.3.1 *Rent Setting*

Previously highly dependent on central government control, municipalities have become the new social landlords in most countries across the region. The institutional reforms in the housing system, and the new financial regime for operation, allow more autonomy in decision-making but also imply a growing social responsibility to deal with poverty and to house the socially disadvantaged. Reforms in the legal framework in Bulgaria provide the opportunity to set rents locally²; in Albania,³ Moldova, Serbia and Romania, rents are controlled at the state level. In most countries rents are set below market levels, with 'flat' rent structures not reflecting the value or the location of the property. In Moldova, for example, rents are 0.2 lei per sq m per month,⁴ in Montenegro €0.01, in Serbia 2.18–3.5 dinars (€0.03–0.05) while in Romania rents are 25% of household income (10% in social housing). Furthermore, in Romania, Albania and Croatia the legislation stipulates that rent control is applied to housing subject to restitution.⁵ The policy of uniform rent constitutes a universal subsidy that is poorly targeted to households in need. Rent structures are not sensitive to demand and there is no mechanism for exit from the sector when the household's income increases above a certain threshold (Lux, 2003; ECE, 2001). Interviews with housing managers in Chisinau, Belgrade, and Skopje at the end of 2004 indicate that rents barely cover operation costs, but introducing cost recovery for housing services tends to be politically unpopular. Correspondingly, municipal maintenance companies carry out marginal upkeep and resort to patchwork maintenance and emergency repairs.

7.3.2 *Allocation*

A low rent policy and a rationing system through waiting lists continues to be the cornerstone of municipal housing policies. In Chisinau 60,000 households are in line. Most of them were selected on a needs basis: handicapped, military personnel, single parent

²However, the *State Property Act* recommends the basic rent per sq m to be BGL0.30 (US \$0.14). In practice most municipalities are using this benchmark with rent levels increased by 40%.

³In the case of Albania this refers to the denationalised housing stock. In future social housing projects rents will be determined locally using the methodology developed by central government.

⁴The standard rent ranges between 15–30 lei per month while payment for heating tends to be 300 lei per month.

⁵In Romania rents are regulated centrally; Government Emergency Ordinance 40/1999 establishes the protection of tenants.

households living in unacceptable housing conditions. Oddly enough, low income is not a criterion for receiving a dwelling through the line. In Romania municipal waiting lists for social housing are based on a point system designed in the *Housing Law* of 1996.

In most countries in the region, priority today is given to households with special needs: orphans, the handicapped, chronically ill, the elderly and single parents. Most municipalities have revised their housing waiting lists along these lines. Tenants in properties subject to restitution are given priority in Bulgaria, Romania and Croatia. Since tenant protection in public housing is still considered to be strong, there is little turnover and almost non-existent vacancy rate in urban areas.⁶ Despite the changes in the previous legislation, which provided life-long guarantee of tenant rights and provisions for inheritance of rental housing, tenant eviction for non-payment today is costly for the social landlord, takes at least 2 years to be enforced, and certainly appears to be politically unpopular.

7.4 Financial Support for Public Housing

In most countries in South East Europe, the state is almost invisible in social housing policy. In Bosnia and Herzegovina major responsibilities for housing are delegated to the entity level and correspondingly to the cantons and municipalities. Across the region direct housing subsidies from the state budget for new construction of public housing have been eliminated, although some ad hoc funding for pilot projects is provided (Romania is a notable exception). Municipalities have acquired autonomy in the management of public rental properties.⁷ This devolution in governance, essentially beneficial for locally appropriate responses to housing market conditions, has left a lot of unfunded mandates. Under the present regime of fiscal austerity, the practical implementation of social housing policies is essentially driven by what municipalities can afford, as opposed to rational responses to housing need. Surveys in Bulgaria and Romania have indicated that most municipalities have financial difficulties and refrain from investment in new provision (Lux, 2003).

In Former Yugoslav Republic of Macedonia the State allocates some funding for the management of state-owned housing; 25% of this annual amount is reserved for provision of housing to welfare recipients in accordance with the *Welfare Protection Law*. In Moldova and Serbia, despite some attempts to reduce housing subsidies, new programs for construction or purchase of dwellings for specific groups have

⁶In Croatia the *Law on Apartment Renting and the Law on Tenure* introduced the right of 'protected tenant' with the option to conclude an indefinite contract and pay uniform protected rent. Tenants in apartments subject to restitution also received the status of a protected tenant. Repossession by the owner is conditional upon the provision of a flat which can be privatised at the same conditions as the socially owned flats. Similar provisions were introduced in denationalised rental properties in Albania and Bulgaria.

⁷In Romania municipalities are obliged to house people with income below the national average. Public housing is financed by the local budgets with some transfers from the state.

been introduced.⁸ While the results have been limited, the subsidy ‘loading’ is not negligible and the targeting tends to be rather low (ECE, 2002, 2005). In addition, Moldova still keeps a detailed discount system of various benefits, including support for utilities. New Social Housing Programs in Kosovo/UNMIK, despite their limited scope, demonstrate the potential of public/private partnerships, as the examples in Box 7.3 and Fig. 7.8 illustrate.

Box 7.3 New Social Housing Program in Kosovo/UNMIK

The need for social housing and post-war assistance to needy families in Kosovo/UNMIK is great. Recent government initiative pioneered the development of social housing policy and two pilot projects – in Decan where 16 apartments (1,026sq m) were built, and in Skenderaj with 21 apartments (1,493 sq m). The average costs were in the range of €350–400 per sq m. Capital investment came from the central budget, municipal involvement and private/public partnerships. The projects have a mix of 25% commercial tenants (businesses and retail) and 75% social tenants.

The cost sharing of planning and infrastructure proved to be attractive to private investors. The pilot projects were an important source of policy learning and experimentation. The Ministry of Environment and Spatial Planning developed *Social Housing Guidelines* with technical standards for social housing projects and regulations on allocation, beneficiaries and rent, which will be the framework for further action.

Source: Stability Pact RRI/MAI (2002)



Fig. 7.8 New social housing in Kosovo/UNMIK

⁸ Recently Belgrade municipality initiated the construction of 100 flats intended for households based on social need. The tenancy of rental flats is limited to 2 years, with the possibility of contract renewal.

Despite the low level of rents in public housing – 5–10% of market rents on average – rent arrears have become a wide spread phenomenon creating a lot of pressure for the administration and management of housing. Reportedly in the large cities in Romania rent arrears account for one third of rent revenues, while in smaller cities the share is 25%, in Bulgaria – 20% (Lux, 2003).

7.5 Maintenance Practices

Maintenance practices are in the process of fundamental adjustment. The process of change is driven by the escalating costs for housing services and the lack of systematic approach to the mobilisation of funds for routine maintenance and capital improvements. The situation was further aggravated due to government withdrawal from the financing of public housing. Public landlords still employ lifecycle assessment where different elements need to be replaced in accordance with nationally set standards. While the technical requirements have moved towards harmonisation with European Union legislation, the major difference is that subsidies are no longer available and financial difficulties of tenants need to be taken into account.

Given the lack of supply-based financial support for the maintenance of public housing and inadequate assistance on the demand side, very few municipalities invest in housing renovation and improvement. Within the general policy framework of city-wide control and decision-making, the ‘day-to-day asset management’ appears to be the norm. It is characterised by a shrinking portfolio, transfer of management to homeowners, and phasing out of responsibilities. The emphasis is on operational management and efforts to balance the budget while avoiding major technical and social problems. Activities are performed very much on an *ad hoc* basis. As presented in Fig. 7.9, the ‘day-to-day asset management’ includes two components. The technical management component focuses on monitoring and supervision of local staff involved in emergency and routine repair, while the financial management component centres on revenue management, rent and arrears collection. Interviews with housing managers demonstrate the growing importance of financial management, particularly in the context of inflation and little to no subsidy for capital improvement and investment. The operational input–output model in Fig. 7.9, often applied in public housing, involves planning and provision of basic packages of routine maintenance services – *outputs* – in response to requests for repairs formulated at the level of individual dwellings and/or buildings – *inputs*. In addition, managers perform social and welfare functions advising tenants on social assistance and manage rent arrears (Box 7.4).

7.6 Conclusion

The institutional framework for housing management in privately owned multi-family housing reviewed in this chapter is a modest departure from the old socialist system. The legacy of publicly provided maintenance and management services, often by municipal companies with tariffs set below the economic cost of services, still

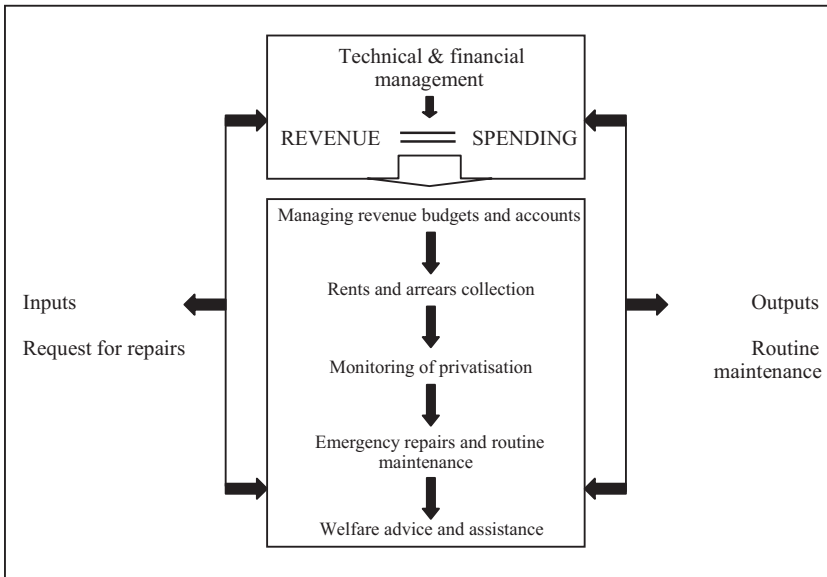


Fig. 7.9 Day-to-day asset management

Box 7.4 Moldova’s Problems of Quality, Management and Social Segregation in Public Housing

Most of the public housing in Moldova today includes dormitories. They were not designed for permanent residence and living conditions remain problematic in urban areas. As better-off families try to escape the small, crowded units equipped with minimal conveniences, dormitories tend to concentrate low-income families. The maintenance level is extremely low and the design does not allow improvements.

Former company-owned housing has become another place for socially vulnerable households because, just like dormitories, it was used to house workers temporarily and provided basic services. Tenants are reluctant or too poor to privatise the units. An additional set of problems arises from dubious ownership status; some buildings are owned by enterprises, which have gone bankrupt. According to the authorities of the central district in Chisinau, there are 90 company-owned residential buildings in a similar situation. Local authorities are hesitant to take over ownership due to massive financial liabilities associated with lack of standards and poor maintenance.

Source: World Bank Report on Millennium Development Goals (2005)

characterises the practice in most countries. Asset management of multi-apartment housing faces unique challenges – technical, social, and financial. The absence of efficient intermediaries (condominiums and homeowners associations) has led to deterioration of the stock. Poor performance of housing management is also related to affordability constraints faced by households and their strategies to cope with the escalating price of utilities and housing related services. The underdeveloped market for housing management restricts competition, which along with the uncertain legal framework makes it difficult to mobilise funds for routine investment in maintenance and renovation.

In the public rental housing, housing management still operates as a ‘command’ system where ownership and management is vested with the state and municipalities and pricing policies are not sensitive to demand or quality of housing services. Allocation decisions in the shrinking portfolio continue to rely on bureaucratic processes, although preference is given to socially disadvantaged households. Maintenance and management is still a municipal monopoly and public landlords manage most of the housing. Given the small size of the sector, public rental housing in the future will target low-income households, functioning more like a safety net. Even under these circumstances, it will be important to increase rents to reach cost recovery and to introduce housing allowances, which would ultimately seek to integrate the administration of all household welfare payments (e.g. including utility compensation payments and rent) within a common, simple, transparent, framework, which is exclusively targeted to the needy.

Chapter 8

Housing Finance and New Housing Provision

In the 1990s countries in the region underwent structural reforms associated with privatisation of their centrally planned economies, and specifically with institutional, banking and financial reforms. This adjustment considerably affected the macroeconomic characteristics of emerging housing markets. Declining output, collapsing state industries, tight monetary policies and high inflation indicated a difficult process of macroeconomic transition from planning to markets. Further detailed discussion on the relationships between macroeconomic developments and the housing sector is beyond the scope of this research. Nevertheless, and despite the complexity of those interlinkages, several statements relevant to the study can be made. The housing sector is particularly sensitive to pressures created by economic recession and high inflation. In addition, austere fiscal policies contributed to decreasing levels of state and private investment in housing. Not surprisingly, housebuilding in South East Europe collapsed. Housing demand also contracted as a result of high interest rates, unemployment and slow wage adjustment. More importantly, the economic crisis in the region considerably affected the performance of mortgage markets and made housing finance reforms much more difficult. This chapter explores the transformation in two critical and most dynamic sectors of the housing system – housing finance and the provision of new housing. The comparative evaluation addresses two important questions: First, did the reforms establish a well developed system of housing finance? Second, is the market-based provision system for new housing more efficient in economic and social terms?

8.1 Bridging the Gap: Developments in Housing Finance

Housing finance systems are in the early stages of development in the countries of South East Europe. Governments identify the lack of housing finance as a main constraint for efficient operation of the housing market and access to affordable housing. There are different types of housing finance systems in Europe with a combination of basic models of housing finance – contractual system, commercial bank model, mortgage bank model, and the secondary mortgage bank model. These differences in individual countries are due to historical development, tradition,

institutional settings and last but not least, government regulations. It is too early to predict the development path of housing finance in different countries, however, recent trends suggest a move towards private commercial lending with limited mortgage banking access to capital markets and experiments with the subsidised *bausparkasse* (contract saving model) model (Hegedüs, 2001).

8.1.1 Overview

Banking sector reform and regulatory and supervisory policies are areas in which countries in South East Europe recently have achieved considerable progress. Consumer lending is growing, including mortgages and housing-related consumer loans. The highlights of the achievements include the following:

- Collateralised mortgage lending for the purchase or renovation of housing has grown rapidly in the region; in addition, many consumer loans are being utilised for housing purposes.
- Mortgage lending is dominated by large commercial banks, often with foreign ownership, bringing international underwriting and servicing skills. Lenders are competing for consumer lending, particularly in Croatia, Bulgaria and Romania, which ultimately is of great assistance in providing more affordable housing finance.

However, there are significant constraints:

- The growth of mortgage lending is limited by the legal and administrative problems, especially those plaguing foreclosure and registration. Banks have conservative underwriting criteria due to legal uncertainties and incomplete property registration systems.
- Underreported income in the region, and the substantial amount of informal income, limit both the number of qualifying clients and the size of the loan.

8.1.2 Banking Reforms

The economic crisis in South East Europe also engulfed the banking system. Currency Boards were introduced in Bulgaria and Bosnia and Herzegovina in 1997 and in several countries the sector collapsed. Eighteen banks were closed in Bulgaria, amounting to about one-third of the banking sector. Half of the banks in Serbia and Bosnia and Herzegovina went bankrupt due to a large number of bad loans, poor internal controls, insider lending, and inadequate risk management (Rabenhorst, 1997). In Albania, the collapse of the 1996–1997 pyramid schemes brought a general distrust in financial institutions. An estimated 33% of the country's total money supply remained outside the banking system. These problems were no doubt related to macroeconomic difficulties, but also institutional weaknesses including inadequate capitalisation, and poorly developed regulation and supervision.

Recent studies indicate that the banking system across the region has recovered (Butler et al., 2004; Merrill et al., 2003; Registra, Analystas and Imantra [RAI], 2005b). Although privatisation occurred more slowly than planned, much of the controlling interest in the commercial banks of Bulgaria, Croatia and Romania was sold to strategic investors. In Bosnia and Herzegovina today 76.7% of banks' capital is foreign-owned, while in Kosovo/UNMIK the ratio is 60%, in Albania and Former Yugoslav Republic of Macedonia 47% and in Serbia 38%. By comparison, state ownership of capital in the region has been reduced dramatically to less than 15% on average. Not only is the banking system dominated by private and in a number of cases foreign ownership, it has experienced large scale restructuring and consolidation (see Table 8.1) Bulgaria has the largest rate of bank consolidation, while Croatia and Serbia still tend to have a disproportionately high ratio of banks per capita.

Commercial banks are licensed, regulated and supervised by the central banks.¹ The central banks use traditional supervisory tools to carry out their prudential responsibilities, including risk-based capital adequacy requirements, periodic on-site examinations, financial reporting and disclosure requirements, and off-site monitoring. Most countries also are taking actions to bring their regulations and standards into compliance with European Union directives (Falcetti et al., 2003).

Access to finance is a critical determinant of private sector development in all economies, as it affects both market entry and subsequent growth. After more than a decade of transition in South East Europe, the banking sector has generally been cautious in expanding its services to the private sector (Council of Europe Development Bank and World Bank, 2004). The level of banking sector intermediation to the domestic economy measured by the ratio of domestic credit (both to the whole economy and to the private sector) to GDP in the region is still very low

Table 8.1 Banks and mortgage lenders in the region, 2004

Country	Number of banks	Banks active in housing finance	Foreign-owned share of total (%)
Albania	20	7	47.0
Bosnia and Herzegovina	27	4	76.7
Bulgaria	37	20	80.0
Croatia	45	8 ^a	25.4
FYR Macedonia	21	2	47.0
Romania	31	7 ^a	80.0
Serbia	46	4	38.0
Montenegro	7	2	80.0
Kosovo/UNMIK	5	1	60.0

Source: Tsenkova (2005), Council of Europe Development Bank Regional Housing Survey

^aIncludes housing savings institutions

¹The Central Bank of BiH was among the first institutions to begin consolidating and centralising operations across all entities.

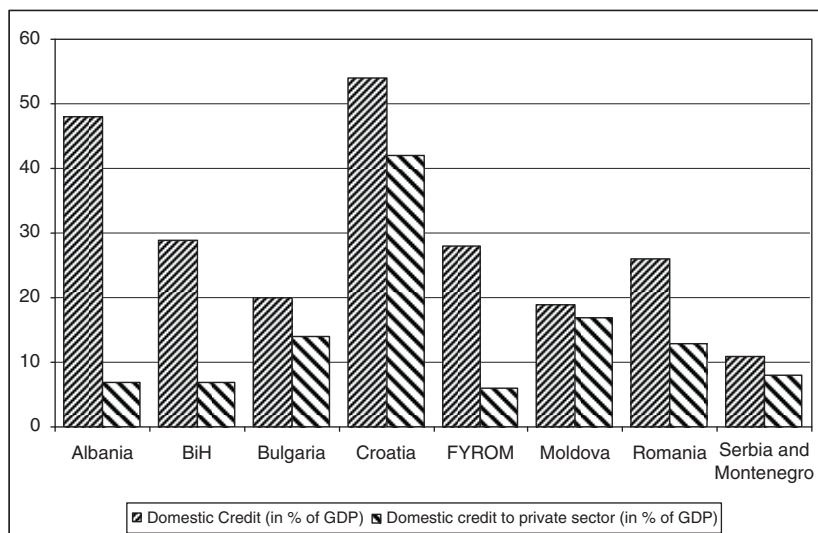


Fig. 8.1 Domestic credit as a ratio of GDP in the region, 2001. *Source:* Falcetti et al. (2003)

(see Fig. 8.1). For the region as a whole, the ratio of total domestic credit to annual GDP was 27% (weighted average), ranging between 11.6% in Romania to 69.1% in Croatia.² The private sector credit-to-GDP ratio was particularly low in some countries (less than 10% in Albania, Bosnia and Herzegovina, Former Yugoslav Republic of Macedonia, and Serbia and Montenegro).

8.1.3 The Primary Mortgage Market

The Croatian mortgage market at present, although still far from European Union standards, is extremely more developed than any other in the Western Balkans. In fact, out of the €2.5 billion mortgage loans outstanding in the region, €2.2 billion correspond to Croatia, accounting for close to 12% of the country's GDP and 9.4% of the banking sector's total assets. The total amount of Croatian mortgages outstanding represents 20 times the amount in Bosnia and Herzegovina and over 60 times the amount in Former Yugoslav Republic of Macedonia or Serbia. Croatia not only heads the region in size of the mortgage market in absolute values, but also as a percentage of both total assets and GDP (Registra, Analystas and Imantra [RAI], 2005b).

In most of the other countries in the region, credit activity in general, and household lending in particular, seems to have increased substantially during the past 2 years.

²While this level is higher than the intermediation in the CIS region (22.6%), it is much lower compared to the EU average of 108.8%).

Reportedly, despite current low level by EU standards, the mortgage markets in Former Yugoslav Republic of Macedonia, Bulgaria and Bosnia and Herzegovina are expanding at a rate of 20–40% annually. Banks have started to offer much more competitive financial terms – particularly longer maturities and lower interest rates – and apply less restrictive underwriting criteria. In Romania, for example, concerns over rapid private sector lending compelled the National Bank of Romania to establish a maximum payment-to-net income ratio of 35% for mortgage credit and to introduce a maximum loan-to-value ratio of 75%³ (Merrill et al., 2003; Registra, Analystas and Imantra [RAI], 2005a).

However, in other countries in the region mortgage lending is in its initial stages of development, particularly in Serbia and Moldova. Former Yugoslav Republic of Macedonia has a relatively new mortgage lending system established in mid-2002. Its size is estimated to be 40 million euros, amounting to barely 1.1% of GDP, with an ~3,000–3,500 mortgage loans outstanding in November 2004 (Registra, Analystas and Imantra [RAI], 2005a). In Bosnia and Herzegovina several banks have initiated mortgage-backed (and guarantor-backed) lending for housing at 15-year maturities. This development has been stimulated by the European Union supported (€25 million), KfW implemented *Housing Construction Loan Program of the European Fund* for Bosnia-Herzegovina, which has kick-started a commercially oriented housing finance system through local banks (Butler et al., 2004).

8.1.3.1 Mortgage Lenders

The mortgage market in the region is dominated by commercial banks. Recent overview of the mortgage market in a number of countries suggests that mortgage lending is offered by a small number of institutions, often the largest commercial lenders with some degree of foreign ownership.

In Croatia the mortgage market is dominated by the biggest six banks. Zagrebacka Banka is the current leader of the mortgage market, followed closely by Privredna Banka. These two institutions account for more than 50% of the market in 2004 (more than €1,100 million; 50,000 operations) (Registra, Analystas and Imantra [RAI], 2005b). In Bosnia and Herzegovina mortgages or housing loans are offered by the largest banks – Raiffeisen, Zagrebacka, and Hypo Alpe-Adria. Volksbank has also entered the competition but is still considerably smaller. In Former Yugoslav Republic of Macedonia the mortgage market is dominated by the country's two largest banks: Stopanska and Komercijalna, jointly accounting for 75–80% of mortgage lending. The third main player is Tutunska Bank while the Export and Credit Bank has also increased its mortgage lending activity, but its market share is less than 5% (Butler et al., 2004; Registra, Analystas and Imantra [RAI], 2005a).

³Since much of the mortgage lending in Romania is in foreign currency – US dollars or euros – the National Bank of Romania increased the mandatory reserve requirement on banks' foreign exchange liabilities from 25% to 30%.

The principal exception in the region is the monopoly over mortgage lending in Bulgaria by the State Savings Bank (DSK), privatisation of which has experienced major delays and barriers. Historically, all mortgage lending was undertaken by DSK, which recently is losing share to over a half dozen competitors. The overall mortgage portfolio was roughly US \$100 million in the fall of 2002, of which over one-half is held by the DSK. Other banks lending for housing include UBB, Post, Bulbank, BACB, First Investment Bank, Express Bank, and Raiffeisen (Merrill et al., 2003).

8.1.3.2 Housing Saving Banks

While mortgage lending is clearly dominated by the largest commercial banks, Housing Saving Banks account for a very small share in Croatia and Romania. In Romania, two non-bank mortgage finance companies – Domenia Credit and Eno Credit – are required to register and report to the National Bank of Romania (NBR). There is also a specialised housing savings bank – Raiffeisen Bank Bausparkasse Romania.

Housing Savings Banks (*Baussparkasse*) in Croatia account for less than 1% of mortgage lending. Their activity is strongly regulated and supervised by the Central Bank. *Baussparkase* generate interest income, which together with a government premium on savers' deposits results in favourable home loans funded exclusively through customer deposits. Although the minimum saving term required to qualify for building societies' home loan is 2 years, most of the agreements are concluded for a term exceeding 5 years.

Mortgage Insurance is a new instrument launched in Serbia. *Nacionalna korporacija za osiguranje stambenih kredita* (NKOSK) was established in 2004 to improve the situation on the mortgage market. It is a public enterprise with an implicit state guaranty. The original capital is €10 million from the state budget. The supervision is provided by the Ministry of Finance, with the obligation to report annually to the government and correspondingly to Parliament. The NKOSK will insure mortgage credits given by banks up to an amount of 80% of the value of the real estate. The premium for the insurance will be 1–4.5% depending on loan amount, borrower, real estate and credit terms. The banks will be obliged to lower the interest rate for the credit by at least 1% (Box 8.1). It seems to be problematic, that the NKOSK will be active in the financial market without supervision by the National Bank, without a license and without fulfilling the capital requirements obligatory for other market participants. In addition, this form of state support for housing appears to be poorly targeted (ECE, 2005).

8.1.3.3 Sources of Funding

The principal sources of funds for commercial banks, and thus for mortgages, in the region are demand and time deposits and, to a much lesser extent, loans, lines of credit, and equity from parent foreign banks. In some cases, international lending institutions like the EBRD and the IFC also provide funds. Credit activity at present

Box 8.1 Declining Significance of *Bausparcasse* Financing in Croatia

Housing Savings Banks have complete independence to establish the criteria to be applied in determining savers' creditworthiness. While a saver is entitled to a mortgage loan after the expiry of the saving term, the loan is not granted automatically, but is subject to the fulfilment of lending criteria (loan requirements and financial terms) that vary according to the saving term completed. Currently, housing loans are provided at a fixed interest rate – below mortgage market rates – that cannot exceed 3% of the premium of deposits. Although this financing system was quite popular when it first began in the late nineties, its attractiveness has decreased over the years, particularly since the effects of this program have been very modest and interest rates charged on mortgage loans have decreased significantly. Until now, housing saving banks have been providing relatively small volumes of housing loans (which, judging from the size of the loans and the amount needed to buy a house in Croatia at the moment, is not enough for home purchase).

Source: Registra, Analystas and Imantra [RAI], (2005a)

is mainly funded through deposits (70% of total assets). Since mortgage loans are being granted at increasingly longer terms, this situation leads to a significant assets and liabilities maturity mismatch that so far has been partially solved by international credit lines and banking loans from headquarters. The secondary mortgage market for now does not exist and the main limitations to its development are the little interest of the banking sector, the limited depth of financial markets and the lack of institutional investors.

Bulgaria is a notable exception in the region – it has introduced legislation and institutional infrastructure to mobilise long term finance. During the period July 2001 to September 2004, seven Bulgarian banks financed mortgages by issuing €63 million in mortgage bonds. The bonds, denominated in either EUR or BGN, had maturities of 2, 3 or 5 years, and interest rates ranging from 6.1% to 8.00% (Merrill et al., 2003).

Romania is in the process of amending its laws to facilitate mortgage bonds and securitisation. However, the likely investors for such bonds – pension funds, insurance companies, and mutual funds – are not as well positioned in Romania as they are in Bulgaria.

8.2 Mortgage Lending

The *underwriting criteria* that mortgage lenders use to select the borrowers are in line with European Union practices and include:

- Maximum loan-to-value (LTV) ratios and related appraisal requirements.
- Maximum payment-to-net income (PTI) ratios and related documentation.

- Borrowers' credit and employment histories and credit scores.
- Requirements for insurance and credit enhancements, including requirements for property and life insurance, mortgage insurance.
- Collateral or third-party financial guarantees.

Mortgage lending practices are becoming gradually more standardised, as a result of increasing competition in the banking sector. In theory, there are no major differences among underwriting criteria applied by lending institutions in different countries. In practice, mortgage lending in Bosnia and Herzegovina and Former Yugoslav Republic of Macedonia is dominated by banks in the capital cities and lenders are much more conservative. The level of standardisation in Croatia is the highest for South East Europe (Registra, Analystas and Imantra [RAI], 2004a, 2005b).

Table 8.2 presents the terms of mortgage lending in a comparative perspective using 2004 data. In Croatia the maximum loan size generally offered by banks may be as high as €100,000, although, on average, loans granted do not exceed €50,000. In the other countries this varies with Former Yugoslav Republic of Macedonia and Swerbia usually lending short term with a maximum amount of €10–12,000. In Moldova, mortgage lending is very limited, reportedly housing loans are used for business purposes. Banks offer maturities that range from 10 to 25 years, frequently within the 15–20 years range. Lending interest rates offered by banks vary widely, ranging from a low of 5.5% to a high of 9.5% depending on the prime rate in each country and a number of factors such as (1) the currency of denomination (2) the client's credit risk profile, (3) the personal relationship between the bank and the customer, (4) the number of guarantors and (5) the down payment made. Interestingly, in Bulgaria loan terms vary according to construction type and building materials, the rationale being that these factors have a major impact on the expected life of the building. Thus, for example, loan terms for panel construction are less liberal than for brick (Merrill et al., 2003; Bothwell and Merrill, 2005). Bank competition in Bulgaria has led to product innovation. Recently banks have introduced 'bridge financing' to allow the purchase of new dwelling for clients still waiting to sell their existing home and secondary mortgages for renovation. The State Savings bank) offers credits without review of labour/income contracts with interest rate of 13% for 15 years (Dimitrov, 2004).

Meanwhile the banks in Bosnia and Herzegovina and Serbia have generally adopted an over-collateralisation approach to lending, and focus their marketing on upper income groups and favoured corporate customers. Mortgage loans are offered only to clients with multiple guarantors and often require other collateral as well, including compensating balances, bills of exchange, and other real estate. Employment must generally be in the formal sector, and in some cases, employment at bank-financed corporations. Loan-to-value (LTV) ratios generally range from 50% to 70%, terms from 10 to 15 years, and interest rates are currently around 10–12% (Butler et al., 2004; Merrill et al., 2004).

Table 8.2 Terms of mortgage lending in the region, 2004

Underwriting criteria	FYR					
	Serbia	BiH	Croatia	Bulgaria	Macedonia	Albania
Amount (max) EUR	10,000	10–30,000	50–100,000	50,000 ^a	10–12,000	10–15,000
Loan-to-value (LTV)	70–100%	50%	70–85%	70–80%	50%	50–70%
Monthly salary to pay the loan (PTI)	Up to 50%	Up to 50%	33%	33%	33%	33–40%
Interest rate	8.5–10.5% floating	9–11%	6.75–8%	9–12%	8.7–10%	11.5–14% ^b
Maturity	Up to 20 years	10–15 years	15–25 years	15–20 years	10–15 years	5–20 years
Guarantors	0–2	2–3	Up to 3	2	3	Up to 2
Property insurance	Yes	Yes	Yes	Yes	Yes	Yes
Life insurance	No	No	Yes	No	No	No
Currency clause	Yes	Yes	Yes	Yes	Yes	Yes
Registration of the real estate	Not in all banks	Yes	Yes	Yes	Yes	Yes
Admin. fees	Up to 2% of loan amount	Up to 2% of loan amount	1–2% of loan	–	Up to 2% of loan amount	–
Collateral	First ranking mortgage	Yes	Yes	Yes	Yes	Yes

Source: Serbia, BiH, Former Yugoslav Republic of Macedonia – Interview data, November 2004 and March 2005; Bulgaria and Romania – Merrill et al. (2003); Croatia – Registra, Analystas and Imantra (RAI), (2005b)

^aIn Bulgaria, Croatia and Romania loans are denominated in the local currency with interest rates indexed to foreign currency

^bLoans in foreign currency min LIBOR + 4–9%

In most cases payment instalments (PTI) cannot exceed 33% of household (regular and formal) income. Regular income and employment stability is compulsory. In cases where informal income represents a high amount of total income, lenders usually require collateral for the mortgage as well as one to three guarantors. Guarantors must meet the same eligibility criteria as the borrower to counteract instability in income and employment. However, given that there is no central registry of guarantors in any of the countries, it is impossible to verify whether or not one individual is acting as a guarantor for multiple loans.

Life insurance is not always compulsory, but property insurance usually is. Insurance costs, however, are low and do not seem to represent a significant extra cost for the borrower. There are nearly always additional up-front fees pushing costs higher. The banks have devised numerous schemes for ‘risk-based’ pricing, varying the interest rate with the size of the loan and the size of the compensating balance. Upfront fees, usually in the range of 1–3% vary according to loan size or whether the borrower is a bank customer.

8.3 Constraints for Mortgage Lending

8.3.1 Interest Rate Spread

Annual inflation in South East Europe has declined steadily in the last few years, leading to more manageable interest rates. However, the interest rate spread between loans and deposits in local and foreign currency is still considerably high. The available data presented in Fig. 8.2 indicate that the interest rate spread in the region is two to three times higher compared to the average in Hungary and Slovakia. There are several reasons – both systemic and non-systemic – to explain the current high spreads. Banks have less experience with credit risk assessment than banks in the more advanced reformers in Central Europe; there are still numerous gaps in the primary mortgage market – uncertainty of borrower’s income, high credit risk profiles, registry and foreclosure inefficiencies.

8.3.2 Conservative Approach to Lending

The experience in developing mortgage finance systems in transition and emerging markets indicates that banks remain very risk averse and tend to adopt an over-collateralised approach to lending. These may include multiple guarantors, low LTV ratio and other collateral. In addition, although foreclosure might be legally possible, social and cultural barriers make lenders less reluctant to enforce it, so there has been a very limited experience with foreclosures in the region (Merrill et al, 2003; Registra, Analystas and Imantra [RAI], 2004b).

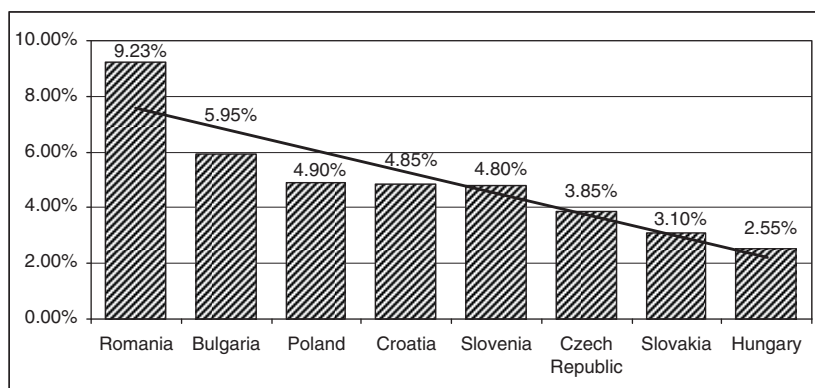


Fig. 8.2 Interest spread in transition countries, 2004. *Source:* Registra, Analystas and Imantra (RAI), (2005b)

8.3.3 Affordability Constraints

As a result of high interest rates and interest rate spreads, but also perceived risks in mortgage lending, banks have focused their marketing on the upper income groups and favoured corporate customers. Households with ability to borrow and repay their mortgage tend to be in the higher income quintile. A recent assessment of mortgage markets in Croatia, Serbia and Former Yugoslav Republic of Macedonia concluded that average price-to-income ratios tend to be high compared to the ones in mature and well established housing markets – close to 12 in Former Yugoslav Republic of Macedonia and Croatia and 16 in Serbia (Registra, Analystas and Imantra [RAI], 2004b, 2005b). While these estimates are no doubt very crude given the lack of systematic data on income and prices of housing, they suggest that in the case of Croatia less than 10% of the households can qualify for a mortgage. Data are presented in Fig. 8.3 with an indication of average values for price-to-income ratios in each income decile. Households are grouped from the poorest to the richest income deciles. At the bottom of the income spectrum price-to-value ratio is as high as 45. What is particularly interesting is that given the more competitive mortgage terms with similar price-to-income ratio, up to 14% of Croatian households might be able to borrow, while in Former Yugoslav Republic of Macedonia this share is 3%.⁴

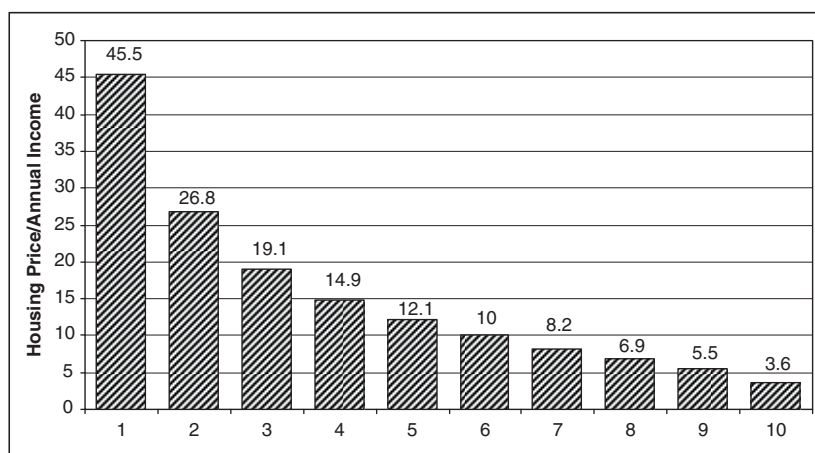


Fig. 8.3 Price-to-income ratios in Croatia, 2004. Note: Households are grouped from the poorest to the richest income deciles. *Source:* Registra, Analystas and Imantra (RAI), (2005b)

⁴Under the most advantageous conditions offered by Croatian banks – 80% LTV, 25 year maturity and 6.5% interest rate, PTI 33% – 14–16% of the households can qualify. In the case of a renovation loan – 20% LTV, 5 year maturity, 8.5% interest rate, PTI 33% – close to one third of the households can qualify.

8.3.4 *Lack of Construction Lending*

Many banks do not engage in construction lending due to uncertainty about titling and ownership of un-built land. This is a significant constraint for new housing construction, particularly in the case of multi-apartment housing. The lack of mortgage support institutions further constrains the development of a well functioning system of housing finance. Primary market support functions are especially important in emerging market mortgage lending. This implies an effective legal infrastructure, including foreclosure and repossession; an appraisal process based on international standards; credit information bureaus; and mortgage-related insurance products (Bothwell and Merrill, 2005). The development of effective appraisal methodology in the emerging housing markets of South East Europe faces numerous challenges. For example, broad-based databases generally do not exist, making it difficult to utilise a comparable appraisal methodology. Also, actual sales prices are often not recorded in order to reduce sales taxes. Most of the countries lack professionally licensed real estate agents and property appraisers. Credit bureaus are established in BiH and Kosovo/UNMIK and are under consideration in Bulgaria and Romania.

8.4 The Housing Industry in Transition

8.4.1 *Privatisation of Construction Enterprises*

Privatisation of the construction industry was undertaken in all South East Europe countries although at varying paces and in different ways. It has, however, primarily been regarded as an industrial rather than a housing measure. Models of privatisation have been based on those employed in other industrial sectors, such as employee buy-outs, sale of enterprises to foreign investors, and the establishment of state shareholding funds (World Bank, 2002). The privatisation of large-scale, vertically integrated, state owned construction enterprises – *kombinats* – has been a slow process in Bulgaria, Moldova and Romania. In Bulgaria, 12 out of the 30 *kombinats* – producers of 3,000 panel housing units per month in the early 1980s – survived till the mid-1990s, and in Romania a large number were left to complete some of the large scale housing projects (Tsenkova, 2000). Parallel to privatisation, a restructuring of the state construction industry has proceeded decisively with new firms emerging from the original vertically integrated organisations. In Serbia, construction enterprises have been caught in the general postponement of industrial privatisation. Despite various problems, former state enterprises recast as private entities have achieved considerably greater production flexibility and management efficiency through production restructuring and downsizing. Struyk (1996) argues that the structural change has been accompanied by efforts to offer housing products with different characteristics compared to the old concrete panel design.

8.4.2 *Private Housebuilders*

The housing industry in the region is in a process of restructuring. A wide range of different organisations, varying by size, ownership, and expertise, has emerged. Indeed, within a decade the shift to private housebuilding has become almost universal in all countries in the region with further restructuring driven by demand in the homeownership market. In the general absence of national/local data on the housebuilding industry, information on the construction firms in region can be used to highlight major outcomes of the transformation process. Several characteristic features emerge. First, the share of private construction firms in 2000 has increased to 80% in Albania, Bulgaria, Croatia and Romania. Second, employment in the construction sector has contracted in the 1990s in all countries with some notable increases since 2000 due to infrastructure and non-residential investment (Euroconstruct, 1995; ECE, 2004). Third, there has been a phenomenal growth in the number of firms, particularly those with less than 20 employees. The process has had a dramatic impact in Romania, Bulgaria and Croatia as shown in Table 8.3, where available data on construction firms grouped according to number of employees are presented. Time-series indicate that a fragmented industry has emerged in a short period of time. Small firms with less than 20 employees account for two thirds of all firms in most countries with the exception of Former Yugoslav Republic of Macedonia and Moldova. In the latter group, large firms of up to 1,000 employees account for 33% and 74%.

Table 8.3 Construction firms by number of employees in the region

Country	Year	Total number of firms	Percentage of firms in the following employee categories			
			Up to 19	20–99	100–999	1,000+
Albania	1995	1,457	86.6	9.7	3.6	–
	1996	1,789	88.8	8.2	3.0	–
Bulgaria	1991	923	4.3	35.2	58.0	2.5
	1992	4,576	75.3	13.1	11.3	0.3
Croatia	1990	953	60.8	13.3	24.2	1.7
	1996	2,144	78.0	16.0	5.6	0.3
FYR Macedonia	1994	251	33.9	30.3	35.1	0.8
	1995	238	33.6	32.4	33.2	0.8
Republic of Moldova	1994	27	3.7	7.4	85.2	3.7
	1996	27	3.7	18.5	74.1	3.7
Romania	1990	203	4.9	1.5	25.1	68.5
	1996	7,046	68.1	20.2	11.1	0.7
Yugoslavia	1992	2,631	76.1	8.5	14.1	1.3

Source: Economic Commission for Europe (1996, 1998)

Private housebuilders have become the new agents in the homeownership market with a strategic role in the provision of new housing. They manage the entire development process from identification of the site, through planning negotiations, land provision, supply of building materials and equipment, labour contracts, marketing, financing and the final sale of dwellings. It is important to distinguish between the private housebuilder (developer) and the builder or contractor. A variety of firms currently operate as housebuilders, performing the function of both a developer and a contractor (ECE, 2001, 2002).⁵ The existence of a large number of small firms in the housebuilding sector reflects the ease of entry into the industry, the fragmented nature of the development process, the demand for small traditionally built housing, and the lack of economies of scale. In general, the industry is characterised by a large number of small firms building up to 25–30 houses and/or apartments per year and only a handful of larger firms building more than 100 housing units per year. Large builders play a more prominent role in selected large urban markets, including Bucharest, Sofia, and Belgrade (Colliers International, 2007a, b, 2008c). Those companies use their own resources for construction finance, and in some cases have established investment and development subsidiaries. Some housebuilding firms have started by spinning off from state construction enterprises, others – as a new business venture driven by market demand. Private housebuilding has established a considerable market presence in Bulgaria, Croatia and Montenegro with speculative housebuilders targeting the elite market. Notwithstanding progress, market-based housing provision in the region remains limited both in terms of volume (with rates below 1 dwelling per 1,000) and tenure choices (exclusively for owner-occupation).

8.5 The Transition in New Housing Provision

The radical change of relationships between the state and the market during the transition period has modified the forms of new housing provision and has set a new framework for the operation of key actors and institutions (Adams, 1987). The following analysis applies the concept of structures of housing provision to explore these dynamic changes in a comparative perspective (Ball et al., 1988). The concept is important in comparative research since the nature of the building industry and the diversity of promotion/production are vital to understanding the varying nature of output between countries (Ball et al., 1988, 1996; Barlow and Duncan, 1994).

⁵The statistical information does not distinguish the housebuilding sector from all other construction activities. Most of the firms are involved in residential as well as non-residential activities depending on local demand.

8.5.1 Forms of New Housing Provision

There is a wide variety of private and mixed forms of new housing provision, mostly for owner-occupation in South East European countries. Their evolution depends largely on the relationship between the state and the market within a particular housing policy framework. Some can be regarded as successful and adaptable to the new political and economic reality, others will fade along with the transition period. On the basis of processes and institutions related to the promotion, production, allocation, and consumption of housing, the following major forms of new housing provision can be identified: public/private cooperation, speculative housebuilding, self-help and informal housing. Forms also determine the level of participation of key public and/or private sector actors and institutions, as they were identified in Chapter 4, Fig. 4.6. Considering the dynamics and adaptability to the market environment, these forms have a different potential in specific local markets. With respect to national experiences and specific arrangements the ‘labels’ might conceal significant variations within each form.

8.5.1.1 Public/Private Cooperation

In the public/private cooperation local or national housing agencies initiate the majority of the housing schemes. Other developers are enterprises, governmental agencies and public organisations. Land is often owned by municipalities or other public institutions. The construction process is carried out on a contract basis by state and/or private construction firms under regulated costs. Funding is provided proportionally by all the parties in the project using different sources: loans, personal savings, mortgages, enterprise funds, etc. Private investors, usually individual households, finance a significant share of the development. Often those shared participation schemes have evolved as a strategy to overcome shortage of construction finance in new or uncompleted projects (Council of Europe, 2001, 2004; Kaganova, 1995). Allocation of housing to each partner is according to its share of development costs financed (Council of Europe, 2003b; Kaganova, 1995). Municipalities and other public institutions as landowners often receive up to 20–25% of the units. In Moldova and Romania, some public institutions, have implemented this model through auctions of land, or uncompleted projects (Tsenkova and Dogotaru, 2006).

In Bulgaria, Croatia and Albania similar arrangements are used to provide owner-occupied housing to ‘target groups’. There are significant variations in the quality, structure and type of these public/private projects but in most of the cases this is modest housing with standardised apartments as shown in Fig. 8.4. Some are built using traditional construction methods with greater involvement on behalf of future homeowners financing the construction; others are developed by public construction enterprises in high-rise structures. More recently, the model has been implemented in several countries – Romania, Macedonia, Bosnia and Herzegovina and Albania – to provide public rental housing, often with state guaranteed loans.



Fig. 8.4 New housing through public/private cooperation in Shkodra, Albania

8.5.1.2 Speculative Housebuilding

Speculative housebuilding is usually a small scale undertaking which operates by linking investors with capital, land, building materials, equipment or labour. To organise the whole process from the promotion to the completion of the project requires enormous efforts. In the case of condominiums, landowners acquire a share of the built units, though larger firms are in a position to buy the land. Equity financing is the dominant source of funding both for multi-family and single-family housing. An amazing variety of schemes exists trying to compensate for the lack of adequate construction finance ranging from advance payment to shared participation (Struyk, 1996; Tsenkova, 1997). The importance of the informal economy for this form of housing provision is significant attracting funds from unreported activities.

Condominiums have become a significant part of the new housing market in urban areas. Costs are lowered through collective ownership over the land, common elements and shared maintenance. Purchasers of condominiums obtain the benefits of ownership in attractive locations where the cost of land is usually much higher. The scale of some developments, however, creates difficulties in management of the production process and coordination of financial contributions (Tsenkova, 2000). While there is a growing preference on behalf of speculative housebuilders to initiate single family housing in attractive suburban areas, the lack of serviced

land is a major problem (Hegedüs and Tosics, 1996; Colliers International, 2007a, 2008b). Market prices are high; housing is built with the expectation of being sold during or shortly after completion. The small scale of development provides an opportunity to control and even reduce the investment risk through appropriate management of the construction process. Private firms use traditional construction methods; quality and space standards are higher than those in self-help and self-built housing.

8.5.1.3 Self-Help Housing

Self-help housing is a small scale housing development initiated by one or two households on privately owned land. This form of housing provision has a long tradition in small towns and villages across the region (Koleva and Dandolova, 1992; Kos, 1992). Future homeowners often control the promotion, financing and production process. Construction tends to be labour intensive, and is carried out by a contractor with the help of the extended family for 4–5 years. Access to land is critical and in some countries (Albania, Croatia and Romania) municipalities facilitate this through expansion of development boundaries in the new master plans. In general, housing construction costs are lower and the quality varies. Recently, self-help in rural communities within commuting distance to large urban centres, coastal areas and recreational zones in Croatia, Bulgaria and Romania has gained popularity and has become more commercialised, attracting even international investors.

8.5.1.4 Informal Housing

Informal housing has grown rapidly in the region since the transition. In fact, authorities in former Yugoslavia had a higher tolerance towards informal house-building both in rural and urban areas. However, the scale of these developments today is much more challenging and varied – from slums to luxury residences, from centrally located areas to suburbs, and from several small units to large settlements. Studies indicate that most of the new housing is illegally constructed in Serbia, Montenegro and Albania (ECE, 2002, 2005). This includes illegal construction on both regulated and non-urbanised land. Households mostly build single-family homes with the construction process heavily dependent on availability of funds and labour. Remittances reportedly play a very important role as well as personal savings. Land is often unserved, without a clear title, but the construction is solid with concrete frame and bricks or block infill. As both building and planning control is limited, the quality of construction varies and materials can be of poor quality. Some of the significant disadvantages are associated with the lack of infrastructure services – piped water, sewer and transport. Households admittedly often pay bribes to state and municipal companies to get access to services. Similar

strategies to informal housing construction may be used by private builders and individuals acting as developers of their own housing. Although quality and standards are higher, housing is legalised after its completion.

The preceding analysis has identified a typology of owner-occupied housing provision within South East European countries. Different forms – public/private cooperation, speculative housebuilding, self-help and informal housing – are defined by the relations between those who initiate and control the production process and the other institutions involved – landowners, financial institutions, municipal planning agencies and housing consumers. Table 8.4 summarises the key characteristics of the housing provision forms discussed above and highlights their differences with respect to entry costs, control over the development process and access to land and construction profits. Owner-occupation through public/private cooperation is an intermediate alternative where land profits are eliminated through public ownership of the land, and construction costs are regulated. Alternatively, the impact over entry costs is favourable and the risk is reduced. Speculative housebuilding offers the best choices to consumers, but at the expense of high costs and risk. Land and construction profits are also high, which certainly affects the sales price. Self-help and informal housing provide opportunities for homeowners to be involved in the promotion and land development stage, as well as in the actual production of housing. Entry costs are lower however choices of location and dwelling type/quality are much more limited. Households, and in some cases private construction firms, act as producers of housing, land profits are internalised and development risk is minimised.

Table 8.4 Forms of new housing provision in South East Europe

Selected characteristics	Owner-occupation and/or public rental through public/private cooperation	Speculative owner-occupation	Self-help owner-occupation	Informal housing for owner-occupation
Entry costs	Medium	High	Medium	Low
Access form	Queue/market	Market	Queue/market	Non-market
Choice of location and dwelling type	Low	High	Medium	Low
Land supply	Non-market	Market	Market/non-market	Non-market
Producer of housing	Private/public firms	Speculative housebuilders	Households	Households/private firms
Access to land profit	Non-existent	Speculative housebuilders	Households	Households
Property ownership	Mixed	Owner-occupied	Owner-occupied	Owner-occupied
Construction profit	Low	High	Non-existent	Non-existent/medium
Risk	Low	High	Low	Low/medium

8.5.2 *Quality and Costs in New Housing Provision*

The opening up of housing markets to private construction activity and the reorganisation of the industry have resulted in significant changes in the *size, quality and type* of new housing. Aggregate data indicate that in 2002 the average size of newly built housing has increased in all South East European countries. Increases in size are particularly significant in Moldova and Romania where the average size nearly doubled compared to levels in 1990, while in the Former Yugoslav Republic of Macedonia, growth has been modest (see Table 8.5). The elimination of state/publicly funded housing construction programmes and the shift in construction methods is reflected in a growing share of single-family houses in Bulgaria (98%), Moldova (58.3%) and Romania (57.7%). In Croatia, this share has declined compared to 1990 due to government sponsored construction programmes providing apartments for refugees and IDPs. Finally, urban areas account for a higher share of new construction in most countries due to pent-up demand in cities. Romania is a notable exception with a complete reversal of its socialist policies of urban-driven housing provision; the share of housing in rural areas in 1998 is as high as 65%.

Large scale panel construction, through which 50–70% of the urban housing stock has been built, has been eliminated. Private housebuilders employ largely traditional methods. Brick and concrete construction are increasingly popular in the region. On-site construction is labour intensive and time consuming, so housing takes an average 18–24 months to complete. However, those methods have improved dramatically the diversity of the product which is reflected in the design and variety of dwellings offered on the market. Private housebuilding has been very quick to adjust to the marketplace and to broaden consumer choices with respect to size, type of units and architectural styles. Though systematic comparative information on other quality indicators is not available, the national statistics report on significant improvement in the level of infrastructure services, at least in the formal housing market.

Table 8.5 New housing provision: Selected indicators

Country	Average size of newly built housing (m ²)			Share of new housing in urban areas (%)	Share of single-family housing in total new housing (%)	
	1990	1995	2002	1998	1990	1998
Bulgaria	71.7	86.1	91.3	86.0	94.6	98.2
Croatia	80.4	84.8	88.0	49.0	74.2	42.0
FYR Macedonia	71.6	71.9	79.4	59.4	–	12.2 ^a
Moldova	68.0	76.7	111.8	60.0 ^a	54.0	58.3
Romania	64.5	72.9	104.9	35.0	7.3	57.7
Yugoslavia	74.0	78.5	–	54.7 ^a	23.1	19.2 ^a

Source: Economic Commission for Europe (1996, 1998)

^aData refer to 1996

While the market-based provision system has delivered better results with respect to size, quality and diversity of housing types, *land and construction costs have increased dramatically*. The first comparative assessment of housing reforms and their impact on new housing production in transition countries carried out by the Metropolitan Research Institute (MRI) (1996) documented the widening differences in land and construction costs in South Eastern Europe at the start of the transition. These differences appear to have been sustained, although some convergence in land costs is observed. Land costs vary widely according to the size of the city and location. Average land costs defined as a percentage of the total house price in typical new housing development are lower in Bulgaria and Moldova (see Table 8.6). These costs can be as high as 25–28% in Croatia, Romania and Serbia. The data indicate that land cost have declined since the mid-1990s which might be attributed to better functioning of land markets. Generally, difficulties in converting agricultural land into residential uses create land shortages. In addition, jurisdictional and titling problems are driving land prices upwards. Legal uncertainties about restitution claims, property titles, and inadequate land register systems further contribute to land shortages and the fragmented nature of land supply.

Construction costs are difficult to forecast and estimates do not remain valid for long due to high levels of inflation and uncertainty about the availability and cost of building materials. Reported costs in 1990 range from US \$37/m² in Albania to US \$1,500 in Croatia. As time series data in Table 8.6 indicate, there has been a considerable increase in construction costs in the last 15 years, particularly in Albania and Romania. Those changes no doubt reflect inflationary processes, increases in the prices of building materials, energy and transportation costs, but may, in part, be due to the use of outdated construction technology and the lack of economies of scale. In the context of general economic instability in the region, most of the firms have adopted a US dollar pricing strategy since 1994, and switched to EUR in 2003. It is interesting to note that

Table 8.6 Land and construction costs in new housing, 1994–2004

Country	Land costs ^a		Construction costs ^b		
	1994	2004	1990	1994	2004
Albania	–	20.0	37	150	210
Bulgaria	17.0	15.0	120	176	450
Croatia	35.0	28.0	1,500	1,000	1,136
Romania	32.0	25.0	320	336	760
Moldova	–	18.0	–	156	390
Serbia	20–25	25.0	1,055	859	450

Source: Metropolitan Research Institute (1996); Tsenkova (2005) (data for 2004 and Moldova)

^aDefined as a percentage of the total house price (including land price) for typical newly constructed units

^bDefined as the present replacement cost (labour, materials, on site infrastructure, management and contractor profits) in US \$/m² of a median priced dwelling unit

construction costs in Croatia have remained relatively stable, while in Serbia the decline might be due to sluggish demand and economic difficulties.

8.6 Economic and Social Efficiency of Private Housebuilding

Addressing the question of economic and social efficiency requires analyses of first, key characteristics related to the economic performance of housebuilders and second, the responsiveness of housing supply to consumer preferences. Economic efficiency can be measured in terms of the ratio between development costs – land, on site infrastructure, construction costs, and development profits – and the sales price. These ratios are very difficult to capture empirically given the heterogeneity of supply and significant fluctuations in construction and land costs, so the analysis here will focus on business strategies to minimise risk and increase profitability. The social efficiency of a housing system (Dickens et al., 1985) refers to its ability to achieve an appropriate supply of housing with respect to location, quality, size, and access costs. Since the chaotic behaviour of prices in the region makes comparative research on homeownership markets extremely difficult, the following sections will explore responses through marketing, product diversification and pricing strategies. The analysis is based on qualitative interview data in several capital cities in South East Europe during 2002–2005.

8.6.1 Economic Efficiency

8.6.1.1 Land Strategies

The way in which firms structure their development activities primarily depends on the nature of the two markets they have to operate in – the homeownership market and the land market (Ball, 1987). Land is a major resource and one of the biggest problems in private housebuilding. The literature highlights the advantages of land strategies such as banking to maximise development gains in housebuilding (Ball, 1996; Barlow and King, 1992; Bramley et al., 1995). In transition countries in general, and in the region, land banking is virtually non-existent. Landowners rarely sell land even to big institutional investors. Land acquisition strategies include a joint ownership with the landlord and/or purchase of the building rights for a period up to 5 years. Within that arrangement developer's profit from land is not as significant, rather profits could be achieved through margins between production costs and the sale price of the dwellings. Although housebuilders emphasise the importance of land dealings, they are much more attracted to areas with high demand and prestigious sites where marketability of units is higher and sales prices are correspondingly higher.

The selection and identification of the site is the first step in reducing the development risk. Larger developers prefer a wider selection of sites in their land

portfolio to minimise the risks, however smaller firms tend to be specialised in niche markets, such as gated communities illustrated in Fig. 8.5. Though housebuilders express a preference to build on green field sites, in reality most of their operations are clustered on infill sites in the central areas.⁶ Green field development is practically possible for the very few volume housebuilders who can justify the expenditure for off-site infrastructure with the size of the development and also compensate these costs through economies of scale.

8.6.1.2 Production Cycle and Efficiency

The organisation of housing production involves the purchase and assembly of non-land inputs, the management of labour and control over the building process at the different stages of the production cycle. Efficiency and higher profits can be achieved through greater flexibility in the organisation of the production process, and in the management of labour and technological capacity. In general, firms attempt to maintain a steady flow of units in order to utilise their existing technological and



Fig. 8.5 Private housing in Chisinau, Moldova

⁶For example, a shortage of land for residential development in Zagreb has contributed to rapid increases in prices. In the past few years house prices increased to € 2,039 per square meter for apartments and € 1,562/m² for houses due to demand outstripping supply. Larger developers are looking for land to locate large-scale residential projects (Colliers International, 2008a, b).

labour capacity. Having a set of projects at different stages of the construction process enables them to streamline the supply of materials and to increase production efficiency. Multi-family housing is built in phases: site clearance, ground work, site servicing, construction of slab and bearing walls, finishing works. Figure 8.6 illustrates these processes in the largest housing development in Chisinau constructed by MAGIC, the largest housebuilder in Moldova. MAGIC owns building material enterprises, several construction companies, and design firms thus controlling all phases of the development process and internalising profits. Traditional methods of housing construction require semi-skilled labour, so most of the small and medium size firms contract *brigadi* for bricklaying and slab erection.



Fig. 8.6 The largest housing development in Chisinau, Moldova, built by MAGIC

Specialised, skilled labour is needed mostly for the finishing works. Most housebuilders, regardless of their size, contract out specific tasks – groundwork and insulation are a good example – to private or public construction firms. Those tasks apparently require heavy technological equipment which is in most cases state owned. Though it is common with firms to purchase lifts, operational mechanisation, fork lift trucks to transport palletised bricks around the site, etc., only the volume housebuilders and several of the medium size firms indicated a serious commitment to developing a technical capacity sufficient to meet their needs. Given the increases in the prices of building materials and inflationary pressures, not surprisingly housebuilders have a strong incentive to reduce construction costs by rationalising the supply of materials.

8.6.1.3 Strategies for Finance and Risk

Success and efficiency are closely related to the mobilisation of funds. Housebuilders try to be independent from borrowing, and as discussed earlier, commercial banks in the region are reluctant to lend for new construction. Most firms provide up to 30–40% internal financing. Through *land barter* (building rights in exchange for a share of the newly built housing) payment for the land is deferred, but builders need to cover the costs of project development, legal fees and marketing upfront. The bulk of the capital is provided by prospective homebuyers (Fig. 8.7). Currently, sources of funding for new housing construction are obscure at best. Needless to say housing absorbs a great deal of profits from the shadow economy, hard currency earning and remittances. *Equity financing* has given a lot more power to consumers in terms of influence over the design, size and quality of dwellings, but has also created a number of problems. If investors pay 90–100% of the price in advance, there is little to no guarantee for the developer against inflation. More importantly, in larger projects the process is much more difficult to manage, often shares of buyers unable to keep up with the payments need to be resold. Ultimately under such conditions investment is considered risky. The implications for the organisation of the production process are several: (1) a shift towards small-scale, tradition-built housing, (2) low tech solutions (cheaper labour and local materials), and (3) a longer construction period so that buyers can mobilise funds. Under the unstable macroeconomic conditions longer construction periods paradoxically shelter the housebuilders from higher risk, since both sales and prices can be adjusted to surges in costs and exchange rates.

8.6.2 Social Efficiency of Private Housebuilding

8.6.2.1 Product Diversity and Marketing Strategies

Successful operation in the housing market implies correct anticipation of demand and consumer requirements and is based on attempts to forecast the future size of the local housing market. Though in reality housebuilders are not involved in a comprehensive assessment of housing demand, firms do attempt to identify local housing market preferences for a particular type of housing, physical layout and

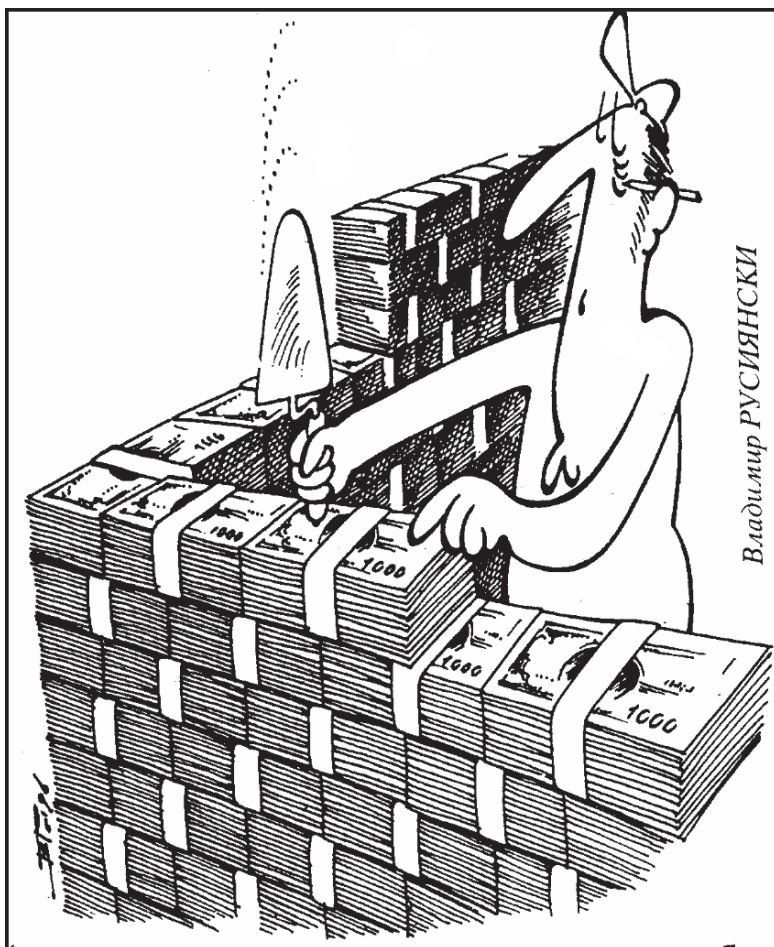


Fig. 8.7 Cash payments have become the basis for financing of new housing

design. Evidence from other studies of new housing construction in the region indicate that output in cities mostly consists of medium density housing in five- to six-storey apartment buildings (Colliers International, 2007a, 2008a, c). Apparently 80 square meter apartments with two bedrooms are most popular on the market. More recent trends in Bulgaria and Romania indicate a shift to larger, high end dwellings, some being part of a new resort apartment market.⁷ The physical change can be

⁷There is considerable growth in the resort apartment market in Bulgaria. For the first half of 2007 alone, there were 23,000 new apartment units built in both coastal and mountain resorts (Colliers International, 2007b). This relatively new market has been growing since mid-2005 at a very fast pace. The absorption rate for existing development was 75% in early 2007, with international buyers like British and Irish citizens accounting for much of the demand. The price range for high standard development is around € 1,700–2,000/m².



Fig. 8.8 Typical medium density housing development in Bourgas, Bulgaria

illustrated in the improved design characteristics of newly built housing compared to the mass produced dwellings in the housing estates as shown in Fig. 8.8. Housebuilding has made a remarkable progress towards better quality and diversity of the final product. The standard four Ps of a marketing strategy – product, price, place, and promotion – are essential for private housebuilders (Tsenkova, 2000).

In the demand-driven housing provision system, consumer preferences and choices are a powerful influence over new housebuilding. These preferences show a growing focus on inner city living and neighbourhood quality, which in turn affects the location of new housing. Private housebuilders prove to be more efficient than state construction enterprises and can deliver better products compared to the state controlled system. The kombinats were notoriously famous for production delays, poor management of the construction process and unfinished projects. The buildings themselves were costly to maintain and had very low energy efficiency. Though housing in the deregulated markets has become more expensive, medium-density, traditionally built housing as opposed to the uniform, system built units in high-rise estates has become the norm.

A detailed knowledge of local housing markets, prices, and potential sites is obviously very important. A variety of marketing tactics have been adopted to provide a more sensitive response to the housing market and to increase revenue from sites. First, a mix of apartment types is provided in the first phase to see which sells best and adjust the rest of the scheme on the basis of that experience. Second, housebuilders gear the rate of completion towards the rate of sales. Third, the uncertainty in the housing market influences the policy over sales prices, and different packages of finishing works. Volume builders often negotiate contracts with fixed final

prices, while most medium and small size firms adjust the sales prices with inflation and the construction cost index. Generally firms will provide up to 5–10% discount to purchasers paying the total price in advance. The standard schemes include cash payment on an instalment basis (70–20–10 or 50–30–20). Given the prices of the dwellings, the social composition is skewed towards higher income groups, notably professional and managerial categories. These educated consumers are more demanding, so the industry encourages quality design, improvements in layout, and emphasises flexibility.

8.6.2.2 Affordability and the Myth of Consumer Choice

Theoretically, a market-oriented system for new housing supply should provide a greater variety of housing for owner-occupation. However, consumer sovereignty in a demand-driven housing provision system is in accordance with the ability to pay (Bramley et al., 1995; Renaud, 1996). Given the fact that wages have failed to keep up with inflation, and living standards have declined across the region, the scope for consumer sovereignty is marginal for most households. It has become clear that housing markets are not a universal solution to existing housing problems and will not automatically lead to a better housing situation, particularly for households excluded from access to homeownership. Studies consistently point out that the low purchasing power of consumers, uncertain income prospects and the lack of mortgage instruments suitable for an inflationary environment reduce the pull of potential buyers (Registra, Analystas and Imantra [RAI], 2004a, 2005b; Renaud, 1996; Ravicz, 1992). It is important to mention that there are big regional differences in the housing markets of large urban centres and apparent regional variations in housing prices and affordability. Exploration of those issues is beyond the scope of this work, but studies document recent fluctuations and growth in house prices in the urban markets of Bulgaria, Croatia and Romania with widening differences with the countryside (Colliers International, 2007a, 2008a, c). Bulgaria and Romania, which already joined the European Union, have seen double digit growth in their house prices (Ball, 2007), exceeding rates of growth in most Western European countries.

What affects house prices and makes housing expensive compared to average incomes? Increasing construction costs, though relatively low compared to Western European standards, coupled with land production costs have pushed house prices up considerably. Certainly the elimination of subsidies, inflation, escalating building materials and energy costs, high land costs, planning and legal delays, all have pushed up the prices of newly built housing. In addition, state policies and regulation have been hostile to the sector, imposing prohibitive infrastructure and development costs. For example, the 18–20% value added tax increased significantly the prices of new housing; and often prices for similar projects vary by 20–30% depending on the infrastructure premium. A high ratio between house prices and average earnings limits access to the homeownership market and the opportunities for private house-builders. Not surprisingly, despite a strong preference for homeownership, but given the affordability constraints, few households can afford entry into the market.

The tenure structure also limits the range of housing opportunities and fuels demand for new owner-occupied housing. Informal discussions with homebuyers indicate that most end up 'trapped in home ownership' paying unbearable costs.

To summarise, the transition from a centrally planned to a market-based housing system has created a very different environment for the provision of housing in the region and has increased the role and involvement of private institutions. A large number of private housebuilders produce new housing. These new actors compete in the market place to deliver better products and services. Equally important to the emergence of private developers and housebuilders has been the increase in self-help and informal housing provision, partly as a response to high prices in homeownership markets. In particular, the absence of a well-developed system for housing finance is a major constraint for the efficient operation of actors and institutions in the market-place. In examining the economic efficiency of private housebuilding, it was argued that the system can deliver financial return and profits, but is extremely vulnerable during recession and inflation. Success in housebuilding depends on land deals, on more conservative organisation of production and on equity financing. It was argued that market-led housing development has a potential for greater social efficiency with respect to consumer choices, quality and product diversity. However, the housebuilders service mainly the upper end of the housing market and little capability is being developed to deliver affordable housing, which seriously questions the social efficiency of the housing system.

Chapter 9

The Transition in Housing and Informal Settlements

This chapter further explores one of the greatest challenges in the regions associated with the lack of affordable housing in the market-based housing system. It explores several important themes – factors influencing informal housing growth and settlement formation, diverse patterns of informal settlement development and correspondingly diverse policy solutions to deal with the problems. It emphasizes the need for strategic policy approaches to address the economic, social and environmental challenges of informal housing in the region. The argument developed here is that it is important to go beyond orthodox planning and land title/registration solutions in order to improve the housing conditions of the urban poor. Their situation is aggravated by systemic problems in the market-based housing provision systems exacerbating housing inequalities and resulting in informal housing.

9.1 Informal Housing and Informal Settlements in South East Europe

9.1.1 Definitions

Informal housing in South East Europe is often reviewed in the context of informal settlements, recognizing the fact that it has grown significantly to shape large parts of the urban landscape in most of the countries. The *Vienna Declaration on National Regional Policy and Programmes on Informal Settlements in South Eastern Europe* provides the following definition:

Human settlements, which for a variety of reasons do not meet requirements for legal recognition (and have been constructed without respecting formal procedures of legal ownership, transfer of ownership, as well as construction and urban planning regulations), exist in their respective countries and hamper economic development. While there is significant regional diversity in terms of their manifestation, these settlements are mainly characterized by informal or insecure land tenure, inadequate access to basic services, both social and physical infrastructure and housing finance. (Vienna Declaration, 2004, p. 1)

Although there are different levels of informal housing, many definitions emphasize informality of occupation and non-compliance with land-use plans as the main characteristics. Other characteristics of informal housing include:

- Lack of secure tenure;
- Lack of basic services;
- Housing that contradicts city by-laws;
- Housing built on land not owned by the housing owner;
- Inadequate access to basic public services;
- Substandard housing or illegal and inadequate building structures;
- Illegal subdivision of settlements;
- Poverty and social exclusion; and
- Unhealthy living conditions and hazardous locations (UN-Habitat, 2003; Payne and Majale, 2004).

The housing policy debate insistently refers to the question of informality and illegality. References to illegality refer mainly to conformity with planning and construction norms and, more importantly, to tenure situations (Abbott, 2002). Residents of informal settlements often lack legal rights to the land and/or the house and are vulnerable to eviction. This vulnerability is sometimes amplified by a general inadequacy of housing, access to services, transportation, education and healthcare that result from the physical and legal marginalization of these settlements from the formal city. Such trends are observed in Albania, Former Yugoslav Republic of Macedonia, Croatia, Montenegro and Serbia (Fig. 9.1). A misconception exists that



Fig. 9.1 Informal housing neighbourhood in Skopje

informal housing equates to slum dwellings. It is true that in many parts of the region its manifestations invoke images of poverty, exclusion and despair, but there are certainly examples where this is not the case. Although many informal housing settlements lack secure tenure, some without proper planning permit have good quality housing and infrastructure services. In other cases, construction might have been carried out in violation of building codes and zoning regulations by relatively affluent residents and speculative housebuilders.

9.1.2 Spatial Manifestation and Formation Processes

The history and evolution of informal housing settlements in the region is diverse and varied in terms of standard (from slums to luxurious residences), location (from suburbs to city cores and protected areas) and size (from several small units to settlements for over 50,000 residents). Among other objective reasons, the flow of migrants from rural areas, but also the influx of refugees and internally displaced people has contributed to illegal and sporadic construction in larger cities. Apart from addressing urgent housing needs, illegal investments in real estate have been used by many households as a ‘shield’ against instability and hyper-inflation. A number of characteristics can be used to identify important types of informal settlements – size, location, profile of residents and spatial organization.¹ Despite a great range of spatial manifestations across the region, the literature suggests that there are several major types:

1. Squatter settlements on public or private land;
2. Settlements for refugees and vulnerable people;
3. Upgraded squatter settlements;
4. Illegal suburban subdivisions on private or public land.

9.1.2.1 Squatter Settlements

One of the most enduring manifestations of informal housing consists primarily of squatter housing. It is built by people on illegally occupied land, usually through self-help. Such squatter settlements in the post-socialist countries of former Yugoslavia were established in the 1970s and 1980s, while in Albania they have a much more recent origin – the early 1990s. The settlements are primarily the result of rapid movement to cities due to migration and changes in the urban economies, or the result of a gradual process of occupation and incremental growth. Located in

¹For an in-depth overview of factors influencing informal settlement formation in the ECE region, refer to Tsenkova (2008). The author gratefully acknowledges the assistance of Ms Schweinichen, Deputy Director of Environment and Human Settlements, United Nations Economic Commission for Europe in Geneva for the research on informal settlements.

peri-urban areas and on public or private land, the settlements have grown to become municipalities in their own right, housing hundreds of thousands of people.

Although the initial developments may have been the result of the authorities turning a blind eye, particularly during the immediate post-socialist in flow of migrants to the cities, today their scale presents a severe problem. For example, in Albania informal housing settlements contain up to a quarter of the population in major cities and 40% of the built up area. In Macedonia they are home of 11% of the population in the 14 largest cities. In Belgrade informal settlements present a dark mosaic in the city structure (Fig. 9.2) and take up to 40% of the residential areas.

In addition to the large peri-urban squatter settlements, there are many other examples of smaller pockets of informal housing built illegally under bridges and overpasses, on vacant plots of land close to industrial zones and railway reserves, steep riverbanks, landslides, waste dumps and landfill sites. The land, often public or private, is unstable or unsuitable for urban development and has no services and access to essential infrastructure. These marginal squatter settlements are often makeshift, built with temporary materials, as illustrated in Fig. 9.3, and residents often face a threat of eviction and demolition. The location and conditions are immensely diverse, but more importantly, residents often face multiple exclusion.

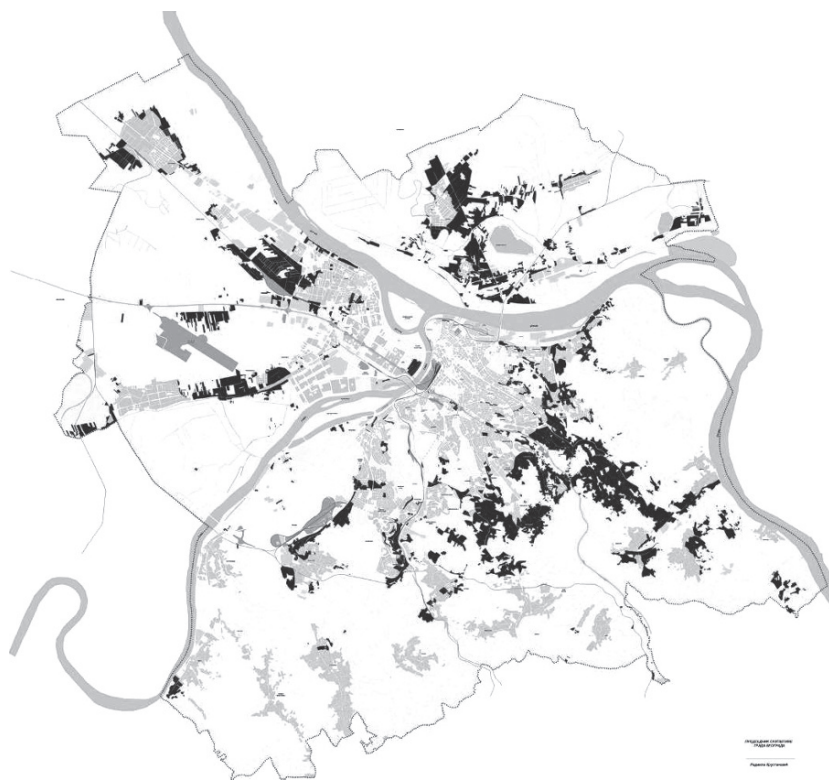


Fig. 9.2 Informal settlements in Belgrade. *Source:* UN-Habitat (2006)



Fig. 9.3 Slums and informal housing in Belgrade. *Source:* Organisation for Security and Cooperation in Europe (2006)

Roma communities in Serbia, Bulgaria and Romania living in *mahalas* dating back to the nineteenth century, are unfortunate examples of this situation (Slaev, 2007; Organisation for Security and Cooperation in Europe, 2006).

9.1.3 Settlements for Vulnerable Groups

Recently developed informal settlements by refugees and internally displaced people across the region are often similar to the squatter type, but they might have been established with the permission of the state or the municipality as a temporary, rapid response to a major crisis, such as the war-related conflicts in the 1990s. The settlements, although newer, often have extremely poor conditions with shacks built of recycled materials, plastic sheets, cardboard and leftover construction materials. In some of these settlements residents were expected to be there for a short time before accommodation in camps or collective centre was provided, but this turned out to be a more permanent solution attracting more people to the original group. These slums with limited access to essential services are generally found in the urban periphery, in pockets of marginal land, or close to collective centers for refugees (Internal Displacement Monitoring Centre [IDMC], 2007).

9.1.3.1 Upgraded Squatter Settlements

Within the informal housing across the region, there is a great variety of settlement patterns and historic circumstances. Some that have started as squatter settlements in the peri-urban areas in the 1970s, have evolved into more established neighbourhoods. Skopje, for example, has 27 illegally constructed neighbourhoods dating back to the earthquake in the 1980s. Variety also exists in the legal status of these settlements: while most begin with an illegal occupation of land, over time some security of tenure is acquired with a formally recognized legal title of land (e.g., in Serbia and Former Yugoslav Republic of Macedonia).

Over time, *de facto* legality is implied by the fact that the settlements are not demolished, and some infrastructure, such as piped water, electricity and sewer has been provided. There are cases where these settlements are included in the new master plans of cities, as the Kalugerica example in Box 9.1 suggests, recognizing their alternative development standards. This has enabled some of the more established settlements to develop rapidly, with residents investing in their homes and improving the local environment. The upgraded settlements are often vibrant neighbourhoods with a viable rental and homeownership market.

9.1.3.2 Illegal Subdivisions

Some of the informal settlements in the region, as it was argued earlier, are not necessarily poor quality, under-serviced housing areas (Petrovic, 2001). Residents in these settlements often have a title to the land, but the housing is built without a planning and/or building permit. Unauthorized land developments or illegal subdivisions are widespread on the fringes of cities in South East Europe – from Serbia to Bosnia and Herzegovina. Illegal subdivisions refer to settlements where

Box 9.1 Upgraded Informal Settlements: Kalugerica

Kalugerica is one of the fastest growing settlements in Serbia and arguably the largest village in the Balkans. Located just 8km away from Belgrade, it has grown rapidly together with the city since the 1980s when it was home to 12,000 people. Its population today is estimated at 50,000, accommodating the influx of the refugees from Bosnia and Herzegovina, Croatia and Kosovo. Although officially classified as a rural settlement, five times the size of its municipal seat Grocka, Kalugerica is a city built by its residents in an informal way. Most of the houses do not have a building permit, but the residents own the land and it might be even registered in the cadastre. Over time, people have negotiated connections to infrastructure, built roads and arranged for services by Belgrade's City Public Transportation Company and the Telekom of Serbia.

Source: Belgrade Master Plan (2004)

agricultural land has been subdivided and sold by its legal owner to people who build their houses often through self-help methods.² Peri-urban land is transformed to urban use by landowners without any official planning permission

Box 9.2 Illegal Subdivision Transformed into a Suburb: Pitesti

The illegal subdivision in the city of Piteshti, Romania, emerged very quickly following the restitution of agricultural land on the outskirts. The new owners quickly subdivided the land of 4.1 hectares conveniently located next to a housing estate with 5,000 flats and a protected forest. The new owners, mostly residents from the multifamily housing in the estate, took possession of over 300 plots of land and started to build their dream home. Today, close to 105 new houses at various stages of construction boast a mix of urban and rural lifestyle.



Within a few years the area was included in the municipal boundaries with hastily approved zoning and planning regime. Two thirds of the land plots are still waiting for development and the land values have increased significantly. Residents provided private roads, which take only 9% of the land, connected their land to electricity on the basis of cost recovery and arranged for piped water supply and septic tanks. They even managed to pool resources to provide gas, but still use the public social infrastructure in the neighbouring housing estate.

Source: Soaita (2007)

and licenses. In some countries the process has been commodified and used by housebuilders to provide housing to middle class families. The example in Box 9.2 illustrates this process in Romania. The settlements are illegal because they might violate zoning regulations, the standard of infrastructure is low, and the land subdivision often does not meet planning standards for right-of-way, road access and provision of public spaces.

Another manifestation of illegal subdivisions across the region is associated with informal housing in recreation zones and coastal areas. The problem seems to be prevalent in Albania, Croatia, Montenegro, and to some extent in Bulgaria, where such responses are often driven by profit and speculative investment in a growing market of secondary homes, rather than housing need. These might be low density housing developments in rural areas with construction of good quality but the level of services is generally low. Sometimes they take over amenity land that is not officially zoned for development and the problems become significant as the settlement grows larger and denser.

9.1.4 Location and Size

Informal settlements tend to cluster in two very broad types of location – inner city and peri-urban areas. The centrality of location often implies older, more established formations close to the old city, or its industrial zones. Residents benefit from the proximity of employment opportunities, but often inhabit substandard housing on sites that are exposed to environmental and health risks, normally unfit for urban development. In most cases informal settlements, especially large scale formations, concentrate in the periphery because land values tend to be lower. These could be squatter settlements on public land or illegal subdivisions outside urban/municipal boundaries. The quality and standards of housing are generally better and some illegal connections to existing infrastructure might ensure much-needed electricity and water. Residents of these settlements are relatively effective in resisting attempts to demolish or relocate them. The matrix in Table 9.1 provides a summary of major types of informal housing with a reference to location and quality of settlements.

9.2 The Challenges of Informal Housing

Addressing the problems of informal housing requires a better understanding of the driving forces contributing to its growth as well as recognition of its interrelated economic, social and environmental challenges. Countries in the region experiencing informal settlement growth are grappling with the same set of systemic problems

²For example, in the Belgrade region, recent annual production by the formal market has been around 1,500 units per year, mostly for the upper segments of the market, while informal production has ranged around 50,000 a year. Furthermore, high fees and the difficulty in collecting the required documentation also contribute to the non-registration of land and housing.

Table 9.1 Matrix of informal settlement types in South East Europe

	Inner city	Peri-urban	Substandard/ slums	Relatively good/quality
Squatter settlements on public or private land	•	•	•	
Settlements for refugees and vulnerable people	•		•	
Upgraded squatter settlements	•	•		•
Illegal suburban subdivisions on private or public land		•		•

related to lack of access to affordable housing, inefficient planning and land management systems, as well as growing urban poverty, though in very different national contexts. A common element of this process is the combined effect of economic transformation and war-related conflicts, which has provoked a sudden acceleration of urban migration and proliferation of informal settlements. Central and local governments were largely unprepared to face the pressures on land, housing and services. Fifteen years later, informal housing covers large tracts of peri-urban land being the home of both socially vulnerable groups and relatively well off migrants to the cities. As stated by Gabriel (2007) ‘This is not simply an “urban planning problem,” but a rather more complex and intractable phenomenon which, unless rapidly and efficiently addressed, may threaten the long-term sustainability of urban communities’ (p. 5).

In a context of economic and political liberalization, accompanied by concentration of poor and disadvantaged groups in cities, the explosive growth of informal housing in peri-urban areas needs to be addressed. There is a widespread acknowledgement that resolving the ‘urban problem’ of informal settlements is related to the nexus of improved access to affordable land, housing as well as transparent and efficient planning regime. A study of the World Bank (2007) on informal settlements in transition economies succinctly summarizes these issues (see Box 9.3).

In addition to significant constraints imposed by inefficient planning regimes, land registration and management systems, the housing systems in South East Europe suffer from imbalances caused by the lack of rental production (public or private) for low income households, spiraling costs of urban land and housing in growth areas, and limited support for vulnerable growth groups (elderly, displaced populations, minority groups and socially disadvantaged) to access housing of decent quality in the marketplace. Therefore, it is not surprising that in some urban areas experiencing rapid growth the share of inadequately housed low income people is increasing and/or the urban poor tend to house themselves, directly or through informal contractors, outside the legal and planning framework.

Box 9.3 Planning and Land Management Constraints

The analytic and project work of the World Bank in a number of countries in the region points to the following common factors that influence informal housing development:

- *The absence of a recent “regulatory plan” (land use plan) and approved local regulations for land use.* Plans may be out-dated or incomplete. Many specifications like setbacks, width of major roads, floor area ratio, and maximum heights may have to be negotiated project by project. This practice increases the cost of construction by causing lengthy delays and creates the impression of arbitrariness and opportunities for corruption. If the process is lengthy and unclear, many citizens may not have the knowledge, time or funds to follow the procedures.
- *The lack of funded municipal programs to build primary infrastructure.* Without the benefit of current infrastructure network plans, developers are obliged to build and finance their own off-site links between their units and the existing network, or extensions of the network. This leads to fragmentation of the system, making it uneconomic and expensive to maintain. Individuals may have no access to infrastructure or may ‘buy’ illegal hook-ups.
- *The difficulty of acquiring undeveloped land, officially and legally, for construction.* Most vacant land around cities is either encumbered by disputes over title or claims for restitution, or belongs to the government and is therefore not on the market. The ability of developers and individuals to find out about available land is hampered by incomplete records and multiple agencies/ministries responsible.
- *High transaction costs in the formal sector, complex processes and unresponsive institutions.* In many countries the costs – in time, money and number of offices visited – to formally construct and register a building are substantial. Again, lengthy and confusing processes may ‘encourage’ the informal sector, and the absence of strong enforcement by the responsible agencies also contributes.

Source: World Bank (2007, p. 3).

9.2.1 The Economic Challenges

While research indicates that there is a growing acceptance of the ‘informal city’ in most countries in the region, its economic and social challenges have largely been underestimated (Gabriel, 2007; Tsenkova, 2008). The rapid growth of the ‘informal city’ has grudgingly been recognized as a manifestation of the largest economic challenge that local governments and cities need to face.

In economic terms, informal settlements mobilize significant public and private investments, which remain outside of the formal economy and investment cycles

(De Soto, 2003). In addition, they are associated with significant public sector costs, explicit and implicit. Settlements often take over public land shifting the cost burden to local governments and public institutions. The land, often developed in a sporadic way with single family housing, is underused due to its low density sprawling pattern. Informal settlements also impact on the government's ability to manage and plan land use as the owners illegally occupy parkland, former industrial zones that are unsafe for residential development, or land that may have more productive commercial or social uses. While this might not be the highest and best use of the land, the squatting creates long-term problems for the orderly development and growth of the city, its servicing requirements and overall real estate potential. Owners do not pay property taxes or user fees; often connect illegally to infrastructure, thus reducing the revenue available to government to provide essential services.

At the same time, informal housing is a vital element of the informal economy and real estate market. Housing and land in these locations is traded without the involvement of real estate agencies, registration in the cadastre and required payments of state taxes and dues. While this makes housing more affordable and reduces transaction costs, it cannot be mortgaged or used as collateral for other business purposes (De Soto, 2003). Often this might be the single largest asset of the residents boosted by sweat equity and remittances from family members as shown in Fig. 9.4. Since there is no tenure security in most of the cases, this investment is constantly under threat of being lost and becoming 'dead capital', particularly due to environmental hazards – floods, landslides, earthquakes – or demolition.



Fig. 9.4 New informal housing in Belgrade. *Source:* Vuksanovi (2006)

Notwithstanding the economic challenges for the individual residents, informal settlements pose a high political and economic cost for governments, especially in cases of evictions, legalization and resettlement. Efforts to document the extent of informal development as well as to allocate the extra institutional capacity to integrate the settlements into the planned area of the city are extremely costly. Furthermore, local governments and public institutions need to deal with land and real estate registration, dispute resolution and in some cases compensation of private landowners. Often the inability to absorb these costs perpetuates the tolerance to the 'informal city'.

9.2.2 The Social Challenges

The variety of spatial manifestations of informal settlements across the region is associated with many different social dimensions to the problem. Notwithstanding these differences, several issues are important. First, residents of informal settlements are often poor and disadvantaged facing higher unemployment, social hardships and tenure insecurity (Leckie, 2002; Organization for Security and Cooperation in Europe [OSCE], 2006). Second, evidence suggests that demographic pressures from IDPs and vulnerable groups, such as the Roma population, are met by informal housing settlements (Council of Europe Development Bank, 2004). Figure 9.5

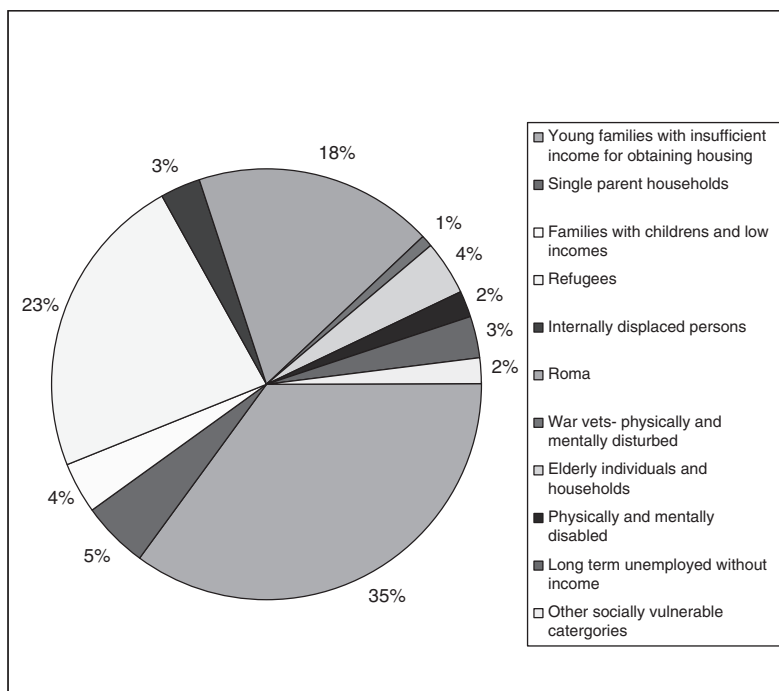


Fig. 9.5 Profile of informal housing residents in Belgrade. *Source:* Belgrade Urbanism Institute (2003)

Box 9.4 Provision of Social Infrastructure and Community Facilities in Kamza

The Municipality of Kamza is one of Tirana's informal housing settlements with over 90% of all dwellings being constructed illegally. The settlement was primarily agricultural land in the early 1990s but has grown substantially to around 60,000 residents today. Residents have migrated from the north-eastern regions of Albania, with the hope of a better life and greater opportunities. Half of the people are unemployed and half of all households live below the poverty line.

The average home is 119 m², twice the average for Tirana. Housing is initially built in shack form and then upgraded as remittances are received and resources are found. While planning efforts and the work of NGOs, such as Co-PLAN, have boosted the confidence of residents and led to US \$110 million investments, there is no land for social infrastructure.

Source: Besnik et al. (2003)

presents a profile of the disadvantaged groups residing in the informal settlements of Belgrade. Young families with insufficient income to obtain formal housing are the largest group at 35%, followed by refugees comprising 23% and Roma accounting for 18% (Belgrade Urbanism Institute, 2003). Without financial resources and stable employment, many IDPs and refugees who moved to Belgrade to start a new life resorted to informal housing solutions.

In countries such as Montenegro, Albania, Kosovo and Bosnia-Herzegovina, as a result of rapid shifts in local economies and/or war, hundreds of thousands of relatively poor migrants or internally displaced people have moved to the capital cities. The new arrivals have settled in the peri-urban areas where they build houses on unserviced lots, squatting on private or public land. In most cases poverty and deprivation are manifested in the quality of the housing being built as well as in the substandard pattern of urban development without any social or technical infrastructure. The example from Kamza illustrates some of these problems in the newly created neighbourhoods (Box 9.4).

In addition to the lack of access to schools and social services, peri-urban settlers generally do not have title to the land, facing potential threat of eviction. There are cases in the region, where this might be different, for example in the older settlements in Serbia, Macedonia and Montenegro, however the lack of social infrastructure – schools, medical clinics and social services – perpetuates a spatial form of social exclusion.

9.2.3 *The Environmental Challenges*

In most of the cases the environmental challenges in the informal settlements are associated with the lack of basic infrastructure. Even residents of the older and upgraded settlements that are relatively well off lack access to clean water, adequate

Table 9.2 Infrastructure deficit in the informal settlements of Tirana and Belgrade

Access to infrastructure (% of dwellings)	Informal settlements		
	Tirana	Tirana	Albania
Sewer	46.0%	91.0%	58.0%
Piped water	41.0%	95.0%	56.0%
Central heating	0.0%	2.0%	2.0%
Electricity	68.0%	97.3%	86.5%
	Roma settlements		
	Belgrade	Belgrade	Serbia
Sewer	25.2%	92.0%	78.0%
Piped water	47.1%	98.0%	90.0%
Central heating	–	49.0%	28.0%
Bath or shower	40.0%	96.0%	80.0%

Source: Tirana: ECE (2002); Council of Europe (2003b); Belgrade: ECE (2005); Tsenkova (2005)

roads, public transport, and reliable electricity. The situation has immediate consequences for the residents themselves, but also adversely affects the quality of life in the formal areas of the city where urban run off, downstream pollution from garbage and sewer discharged directly in rivers creates serious environmental threats.

The infrastructure deficit in informal settlements is significant. Often illegal connections are the only means to gain access, which is unreliable and inefficient. The illegal tapping lowers the efficiency of public utility companies and exposes the regular users to frequent power and water cut-offs. Since most residents in informal settlements do not pay the full price for infrastructure usage, the revenue is unable to support the growing demand for infrastructure improvement and extension. Correspondingly, the systems deteriorate with serious economic and environmental consequences.

The available data in Table 9.2 present the infrastructure deficit in the informal settlements in Tirana and Belgrade. The differences in access to essential services are significant compared to the average for the city and the country as a whole. In Tirana, amenities in informal housing are much closer to the national average than is the case in Belgrade. The Roma settlements in Belgrade have substantial disadvantages – only a quarter of the dwellings have access to sewer and half have piped water.

In addition to the infrastructure deficit, some settlements are directly exposed to environmental hazards associated with land slides, flooding, poor drainage and environmental pollution. These challenges create health risks for the residents, often children and women. The growth of informal settlements contributes to environmental degradation at many levels: (1) erosion occurs from unpaved and undrained roadways; (2) residents without sewer systems increase pollution of local water sources through prohibited discharge; and (3) garbage is dumped along the road, in the local river/lake. In some cases informal settlements might create environmental hazards through development in natural reserves and protected areas. Indeed this often tends to be the case in the coastal areas of Croatia and Montenegro (see Fig. 9.6).



Fig. 9.6 Environmental challenges due to informal housing in the coastal areas of Montenegro.
Source: Gacevic (2007)

9.3 Policy Solutions

The *Vienna Declaration on National and Regional Policy Programmes* regarding informal settlements in South Eastern Europe identifies the issue as a priority and engages countries in policies to legalize and improve informal settlements in a sustainable way. It argues that the prevention of future settlements formation is critical through sustainable urban management, principles of good governance, and inclusive capacity building (Vienna Declaration, 2004).³ The search for policy solutions to address informal housing settlements is clearly multi-faceted and multi-dimensional. Various projects and urban development programs have been considered in South East European countries, but implementation is ad hoc and considerably slow. The solutions range from legalization and inclusion in formal urban plans, regularization and provision of essential social services (schools, medical clinics) and technical infrastructure (safe roads, public transit, water and sewer), as well as resettlement programs in social housing. While these solutions illustrate different aspects of the policy continuum, they also imply significant

³Some capacity building is provided to Albania, Bosnia-Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Montenegro, Serbia and UNMIK/Kosovo to meet Vienna Declaration commitments by the Stability Pact and UN-HABITAT through a “Regional Capacity Strengthening Programme for Urban Development and Housing (RCSP)”.

political will and financial commitment of central and local institutions. The following major types of policy intervention will be reviewed:

1. Legalization
2. Regularization and upgrading
3. Resettlement and reallocation.

9.3.1 *Legalization*

Legalization of informal settlements in the region is in the process of being implemented. The approach emphasizes the integration of informal land and housing markets in the formal economy, and access to ownership through property titles. The legalization of the unintended *status quo* is driven by efforts to capture public revenue and to stabilize large urban communities through potential social and infrastructure upgrading programs. Overall, responses to legalization vary according to local contexts, the types of informal settlements, governments' political orientation, and pressure from concerned communities. In some countries (Croatia, Montenegro, and Bulgaria) legalization is carried out as an integral part of renewed efforts to develop statutory plans regulating development at the local level. In other countries (Albania and Serbia) legalization of informal settlements is addressed through special legislation, although implementation has been limited. Albania's *Legalization Law*, adopted in 2007, provides special provisions for the informal settlements of the poor despite violation of existing planning and construction legislation. Other countries in the region have similar strategies, although progress in implementation might be uneven (see Box 9.5).

Box 9.5 Legalization of Informal Housing in Albania and Croatia

ALUIZNI is the responsible national Agency for Legalization and Urbanization of Illegal Constructions and Settlements in Albania. Its work is to put together the proposals for approving the legalizations of informal settlements. ALUIZNI has prepared a pilot legalization process of an area of 55 hectares. The area is being processed for a complete digitalized documentation containing not less than 30 characteristics for each property to be registered. First legalization permits are granted during February 2007. The registration of properties will follow the process, after duties are paid equal to 1 US \$/m². In total there are 681 informal zones, out of which for 152 zones (23,000 hectares of land) the technical and legal documentation is ready, while for 281 the process is under way. There are also some 98 zones (or 168 hectares) which are occupied by group buildings (not classified as informal settlement). In total ALUIZNI has recorded some 350,000 requests, for legalization, out of which some 80,000 are multi-apartment dwellings and shops.

Source: Andoni (2007)

9.3.2 Regularization and Upgrading

Regularization and upgrading of informal settlements imply a more comprehensive intervention. Nevertheless, the solutions are not cut and dry: legal versus illegal, formal versus informal. The choice of legalization versus regularization will depend on the political will of the authorities, the lobbying and negotiating capacities of the residents and last but not least on the location of the settlement itself, its size and the quality of housing.

The practice of regularization and upgrading emphasizes the importance of intervention at three levels – the neighbourhood (or the informal settlement), the city, and the metropolitan area. While these are mostly planning interventions, the process usually incorporates land and real estate registration, plans for the provision of infrastructure and social services. In several countries (Albania, Serbia and Bulgaria) pilot projects on a small scale demonstrate the value of incremental upgrading using this approach. While it is difficult to judge its effectiveness, it implies collaboration of residents, planners, municipalities and central government authorities. At the neighbourhood level, interaction with planners, grassroots community organizations, families and individuals delineates the immediate problems for residents in order to define possible solutions. At the district/city level, planners and decision makers account for community dynamics and the impact of potential integration into the urban boundary in terms of transport and infrastructure requirements, costs and environmental implications. At the metropolitan/regional level, impacts and interaction within the urban agglomeration are considered, particularly in the case of large informal settlements, in order to make informed political and planning choices for the benefit of the city (Bolay, 2006; World Bank, 2007). Such strategic approach is often incorporated in the new generation of master plans and city strategies in the region (e.g., Tirana, Durres, Belgrade, Skopje), but rarely implemented.

Building and maintaining infrastructure and public amenities is a major step in formalizing and upgrading informal settlements. Once an informal housing settlement is deemed fit to stay at its current location, it is essential to create partnerships to help pay for the costs of housing and upgrading (see Box 9.6). It is important for residents to be engaged in the whole process, as well as to leverage their contribution to the cost of infrastructure and amenities, creating an appreciation for services. In addition, governments need to allocate funds in their capital budget to address the lack of major infrastructure.

9.3.3 Resettlement

A possible solution to informal housing problems is associated with resettlement in social housing or some form of subsidized formal housing development. This is probably the most expensive solution and it is not surprising that its implementation

Box 9.6 Regularization of the Gorica Settlement in Bosnia and Herzegovina

The Gorica Roma settlement of ~60 households, located in Sarajevo, occupied a parcel of land owned partly by a state-owned enterprise and partly by the Municipality. After the war in 1996, families that had been displaced returned to Gorica and reconstructed their homes, although the threat of eviction from the area was still imminent. In 2000, the association of Gorica residents mobilized several international organizations, including OSCE, OHR and UNHCR, to resolve its housing situation. A regularization process was initiated including the rezoning for residential uses, compensation of the landowner (state enterprise) by the municipality and transfer of land ownership to the Roma residents in 2002. The municipality sought assurances from the donors that adequate housing would be provided. Reconstruction in Gorica commenced in the spring of 2002 under the auspices of World Vision.

Gorica highlights several lessons that are relevant to other prospective regularization processes:

- Roma communities must provide the impetus for regularization. The early and sustained engagement of the Gorica Roma community in the effort to resolve their insecure housing situation was an essential factor in achieving the regularization of their settlement. Gorica benefited from good local leadership that promoted solidarity among residents and represented their interests in an open and effective way;
- Partnerships are instrumental in overcoming the legal, political and financial challenges involved in regularizations. The Roma community of Gorica cultivated good working relationships with local government, civil society and international organizations;
- Regularizations require inventive solutions such as rezoning, compensation and reassurances for housing improvements and follow up investment;
- Regularizations require long term commitment. It took 15 years from the first expropriations to the final step to fully secure the tenure of the residents of Gorica.

Source: OSCE (2006)

is fairly limited. In most of the cases resettlement is targeting poor residents of informal housing or vulnerable groups such as Roma, refugees and internally displaced people. There is no general model for the difficult task of re-housing large groups of poor migrants and refugees and their subsequent integration into existing cities. The importance of effective social policies and programs that provide access to affordable and safe housing for informal residents, while widely recognized, is in many cases beyond the financial capacity of central and local governments,

particularly in countries affected by war and the refugee crisis. Many of the solution related to resettlement are small scale projects funded by international agencies and/or bilateral assistance.

More significant contributions in re-housing refugees have been made by the Council of Europe Development Bank. Bank funded projects allowed more than 2,300 people in Bosnia and Herzegovina and Serbia and Montenegro to be re-housed in 2005 with another project benefiting 1,081 former residents of collective centres in Serbia and Montenegro in 2006. Similar schemes have been supported through grants from the European Commission to Bosnia and Herzegovina under its *Return of Refugees and Displaced Persons* Programme. The European Agency for Reconstruction has recently allocated €2.4 million to construct affordable housing for refugees and IDPs in Montenegro.

9.4 Informal Housing as a Problem and a Solution

Recognizing the economic, social and environmental challenges of informal settlements is an important step towards the design of different programs and practical solutions to their problems. Against the backdrop of rapid growth of informal settlements and/or the persistent presence of the ‘informal city’ in most countries in South East Europe, local and national policies have been slow in recognizing that inefficient housing, planning and land management systems aggravate these problems. It is now widely understood that migrants to the cities often end up as squatters in the informal settlements because the formal housing and land market is unaffordable to these groups (Gabriel, 2007).

Government support for housing solutions for the urban poor and disadvantaged groups has dwindled in the past decade shifting the burden to local governments, community groups and individual households. Illegal or informal land acquisitions, subdivisions and other self-help solutions are perhaps a natural coping mechanism for the poor migrants and refugees as the rapidly growing informal housing in peri-urban Pristina demonstrate (Fig. 9.7). While in its new enabling role the state offers services and acts as a coordinator of policies and actions in the urban sphere, the market alone has not been able to provide affordable and adequate housing to all sectors of society. The informal settlements are a distinct manifestation of this transition in governance. At its best, this enabling strategy has resulted in improved legislation, infrastructure and services as well as community driven attempts to regularize informal settlements. At its worst, however, it has turned a blind eye to their growth, constrained land supply, exacerbated (corruption, and forced the poor into spatially and socially isolated slums. It is in this context that the problem of informal settlements, particularly those created by the urban poor ought to be viewed. There is a growing awareness that informal settlements, while undeniably a ‘problem’ from an urban management point of view, may have to be seen as a feasible ‘solution’ in terms of a social response to an inefficient housing and land provision system.



Fig. 9.7 Rapid growth of informal housing in peri-urban Pristina, Kosovo



Fig. 9.8 Informal housing for the urban poor in Tirana

A further challenge is that informal housing is built not just by the urban poor, but also by the private housing industry and affluent consumers. This pattern of development is not likely to change in a linear fashion. The practices of illegal construction in urban areas, often due to the lack of a clear planning regime or the lack of enforcement of existing plans, have created significant challenges in many cities such as Tirana, Podgorica, Belgrade and Pristina. Poor land administration and cadastre systems aggravate the situation adding to the problems of urban management without a transparent system of land tenure and property rights. While solutions to the problems of informal housing are critical for a well functioning real estate market and the protection of land and property rights, in their approaches governments need to target vulnerable groups and avoid the broad-based policies that may also perpetuate informality in urban development (Fig. 9.8).

Chapter 10

The Transition in Housing and Nations of Homeowners

10.1 Lost in Transition: Housing Policy in South East Europe

South East Europe is home to 57.8 million people living in more than 20 million dwellings. It includes eight countries with very different size, population, resources and stages of economic and social development. Perhaps the common feature in housing terms is the high degree of private ownership effectively establishing 'nations of homeowners'. Despite its overall diversity, the region is often perceived to be homogenous due to the ideology of socialist ruling regimes regardless of the historical and cultural differences between countries. The former socialist countries were for several decades governed by distinctly different ideological principles with extensive state control over property rights and the provision and allocation of housing. Political changes in the early 1990s (re)introduced markets, parliamentary democracy and important institutional reforms, thus changing dramatically the housing policy scene. Although countries in the region have a common legacy, there were significant differences in the way the socialist model was implemented as well as in the housing conditions of these nations. Housing systems are 'path dependent', which influences the newly established housing markets during the transition in different national contexts. These initial differences in return are multiplied by the choice of housing policy instruments and the type of intervention selected by governments during the transition.

It is necessary to recognise that although the extent and the intensity of housing reforms have been different across South East Europe, the transformation of the housing sector according to market principles has been significant and rapid. The systems of housing provision in these countries, however, are still in a state of flux. The traditional mechanisms of central planning have broken down much faster than the appropriate market mechanisms and regulatory instruments have emerged. Moreover, the transition from planning to markets has taken place under extremely unfavourable economic conditions and with severe dislocations in the housing sector marked by high inflation, rapidly escalating prices and collapsing output. Political instability and civil war have created huge challenges leading to massive displacement of people across the region and serious damage to existing housing.

Housing reforms have involved, more generally, through policies aimed at reasserting market forces and reducing state intervention. With respect to housing provision they have promoted deregulation, increased the role of private sector institutions and reduced and/or eliminated housing subsidies. In addition, an extensive privatisation of public assets (including public rented stock and state construction enterprises) has taken place. The objectives of these reforms have been to improve the economic and social efficiency of the housing systems, and to abolish long-standing imbalances in the production, distribution and consumption of housing. The restructuring of the housing sectors in accordance with market principles has also been necessary for sustaining their national economic vitality and for their integration into the new market-oriented economies.

Homeownership in most countries in the region had already become a mass tenure in the 1980s largely due to government policies, considerable subsidies and high levels of investment in housing. This growth occurred under state socialism in an environment of full employment, generally equal incomes, negligible housing costs, limited mobility and comprehensive welfare provisions. The privatisation of public housing has also fuelled the expansion of homeownership, particularly in Albania, Moldova and Romania. This high level of homeownership, with a growing degree of inequality within the tenure, distinguishes the new market-based systems in the region.

The transformation of institutional structures in the housing sector has proceeded relatively quickly in some countries, such as Romania, Bulgaria and Moldova and has been relatively slow in others. Housing reforms have set a new framework for the operation of key actors and institutions. State bureaucracies, privatised construction enterprises, market-based suppliers, builders, consumers, and landowners have to operate under a new set of rules and regulations. However, in the context of a market-driven housing system these new institutions are building upon the socialist legacy, in addition to being caught in a number of other aspects of the transition to markets and democracy. This socialist legacy will distinguish housing systems in transition from mature, market-based delivery systems for a long time.

Furthermore, housing has lost its status of a political priority. In the new market reality, led by public expenditure considerations, housing policy makers have abandoned the comprehensive approach to housing, and in some cases abandoned housing policy altogether (Bulgaria, Montenegro and Albania). In other countries (Croatia and Romania), housing policies during the transition have been dominated by considerations of what the country could afford, as opposed to the traditional concerns about rising housing shortages and affordability problems. In a large group of countries (Bosnia and Herzegovina, Serbia, Montenegro, and UNMIK/Kosovo), housing reforms have taken place in an institutional and regulatory 'vacuum'. More specifically, efficient housing finance, planning and land management institutions have been particularly slow to develop with considerable negative implications for the operation of housing markets. In most countries in the region despite the efforts of governments to create new legislation and/or to amend the existing one, the legal framework has failed to keep up with the market. The lack of efficient housing market institutions

and less transparency in the legal framework are critical differences between housing systems in transition and mature, market-based ones.

The transition in housing in South East Europe is far from being complete and the new market-based systems – far from being efficient. This study is driven by the premise that housing policy matters and that better policies lead to more efficient performance of housing systems. The conceptual framework for the comparative analysis defined three distinct policy arenas, each governing policy outcomes, instruments and types of intervention. The analysis reviewed developments in three major policy areas affecting the housing systems – policies to establish efficient legal and institutional framework, fiscal policies in the sector and financial policies. Given the diversity of policy responses across the region, the focus was on policy outcomes and progress towards the achievements of:

- Legal and institutional framework for competitive housing markets
- Transparent and well targeted housing subsidies
- Competitive housing management
- Well functioning system of housing finance
- Efficient provision of new housing.

A well functioning housing system needs to maintain a steady flow of investment in improvement of housing quality and to ensure that households have access to affordable and decent housing. Quality, affordability and choice are critical factors in evaluating national housing system performance. Given that the implications for public policies are associated with the cost of public support for production and consumption of housing, the analysis evaluated the performance of housing systems in South East Europe using a range of indicators to compare:

- Distributional efficiency
- Improvement of housing quality
- Stability of investment and production
- Tenure choice and affordability.

The following sections summarise key findings from the comparative evaluation.

10.2 Evaluation of Housing Policy Reforms

10.2.1 The Second Phase of Housing Reforms

The second phase of housing reforms in South East Europe since the mid-1990s has proceeded through ‘trial and error’, focusing on problems to be remedied rather than strategic intervention. This incremental style of policy action means that there is no radical change and that housing policies evolve through complex and reciprocal relations between bureaucrats, politicians, and representatives of interest groups.

There have been limited attempts to launch more strategic intervention in Moldova, Albania and Romania.

Most countries in South East Europe today have a myriad of regulations and housing related initiatives that are not necessarily consistent and coherent with stated housing policy goals and objectives. Despite some diversity of housing policy experiences, the reform path emphasises less prominent controlling and subsidising role of the state and a greater role of the market. Generic subsidies have been cut back and responsibilities for social housing devolved to local governments. However, new transfers have emerged, such as deductibility of mortgage interest or contract savings in Croatia and Romania. New programs providing public/social housing for low-income households have been introduced in Romania and Former Yugoslav Republic of Macedonia. These developments sketched in broad strokes, are comparable elements of housing policy pursued in South East European countries. Yet, some specific arrangements, the timing of these instruments and the response of different housing systems, determine a range of 'enabling' housing market strategies.

The second phase of the reform has marked a shift to mixed instruments (demand-based subsidies for homeownership or post-war reconstruction) and institutional development aiming at building market-based institutions of housing finance and other market intermediaries. In the realm of 'compulsory instruments', housing policy activity has focused on harmonisation of the legal framework for housing management, property registration, mortgage and construction. Public provision of housing has remained limited. A harsher public expenditure regime has led to less investment in social housing, although in some countries limited support for low income and socially disadvantaged groups has been launched.

The direction of change is no doubt the same across the region, and the underlying elements are similar. However some countries have been more successful than others in designing and implementing housing reforms. In fact, notions of convergence do not really match the reality of widening differences in the structure and operation of housing markets between Albania and Croatia for example, or Bosnia and Herzegovina and some of its South East European neighbours.

10.2.2 Progress in Developing Effective Legal and Institutional Framework

Perhaps the hallmark difference between housing systems in socialist and market economies is the role the public sector plays in ownership and control of housing assets. A transition to a market-based system implies a higher degree of private ownership over housing, no restrictions on market exchange and less state (public sector) involvement in the provision of housing services. The analysis also looked at the degree of competition in the supply of new housing and the provision of land, as well as the development of market-based structures to operate and maintain the existing stock and deal with property rights registration.

Development of the legal framework is the cornerstone of the second phase in housing reforms. Some countries have been more successful than others in designing

and implementing adequate legislation to ensure a more efficient market-based system of housing provision. Across the region, private property rights in housing and real estate are adequately protected. Despite progress in developing legal frameworks for cadastre and property rights registration, in a number of countries the system is ineffective, incomplete and often court-based (Serbia, Croatia, Former Yugoslav Republic of Macedonia and BiH). A handful of countries (Romania, Croatia and Montenegro) have introduced mortgage legislation. With respect to housing management, progress is uneven and despite the introduction of housing acts and/or special condominium legislation, very few countries have an adequate legal basis. In fact, even if the legislation exists (Albania and Moldova), the enforcement is inadequate. The formation of institutional entities, such as associations of homeowners or condominiums, has been very slow and in most countries the market for maintenance and management is dominated by municipal companies. With respect to multifamily housing, the legislation in Serbia, Montenegro, Bulgaria and BiH fails to impose in reality an obligation on residents to take responsibility for buildings, which in practice leads to further deterioration of the stock. Efforts to reform the legal framework for planning have been limited and particularly ineffective in Bosnia and Herzegovina, Serbia, Montenegro, Albania, Kosovo and Former Yugoslav Republic of Macedonia. The primary problem is access to land and cumbersome planning and building permit process. In addition, massive informal housing construction in per-urban areas testifies to a failure to develop a coherent and comprehensive urban planning and zoning policy (Fig. 10.1).

In the area of institutional reforms, the comparative assessment highlighted the new roles and responsibilities of public and private institutions in the production,



Fig. 10.1 Informal housing on the outskirts of Prishtina

allocation and consumption of housing in South East Europe. Fiscal austerity and economic uncertainty have affected the operation of central and local governments in the region and their ability to formulate and effectively implement housing policies. The public sector both at the central and local level has a limited capacity and tends to focus on legislative reforms. Local governments in some countries have acquired important responsibilities related to public housing (Bulgaria, Moldova, and Romania). The lack of well-established regulatory institutions at the central and local level, as well as the weakness of financial institutions (particularly in Serbia, Albania and Bosnia and Herzegovina), contributes to the inefficiency and immaturity of emerging housing markets in South East Europe.

In most of the countries the construction industry has been privatised and most of the new housing is provided by the private sector where private building firms, landlords and developers have a significant role. In countries where the market for maintenance and management services has been liberalised (Bulgaria, Croatia, Former Yugoslav Republic of Macedonia), private firms have emerged, although they do not seem to be professionally licensed. Market intermediaries – real estate agents, property appraisers, notaries – exist in Bulgaria and Romania, but in the other countries have not been professionally established.

Figure 10.2 presents the relative progress of different countries with respect to legal and institutional reforms to ensure efficient provision of housing services by the private sector. This stylistic presentation positions most of the countries in the area where private institutions are underdeveloped with a cluster of countries – Bosnia and Herzegovina, Serbia, Former Yugoslav Republic of Macedonia and Kosovo/UNMIK – further disadvantaged by inadequate legal framework.

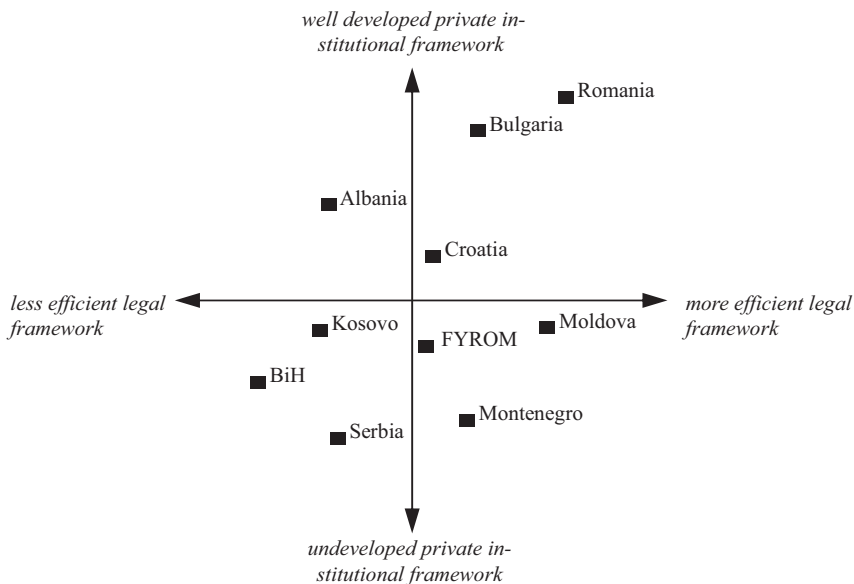


Fig. 10.2 Progress in legal and institutional reforms

10.2.3 Progress in Developing Transparent and Targeted Fiscal Policies

The study used a number of fiscal indicators to measure policy outcomes in terms of direct expenditures of the government, positive or negative (i.e. a tax), and indirect, such as rent control. In particular, it looked at the level of transparency and targeting of public funds in the housing system. Another important aspect of the evaluation is related to different subsidy types: (1) supporting homeownership or public rental housing; and (2) demand-based or supply-based since it is particularly important for governments to know what type of subsidy is most efficient and equitable. Finally, and for transition economies perhaps the most important measure, is the level of subsidies in terms of share of GDP.

Despite the generic subsidy cutbacks during the transition, the housing sector in South East Europe still maintains a diverse set of measures to ensure access to affordable housing as well to provide assistance to groups with special housing needs. The mix is complicated to evaluate since there is no systematic assessment of different government programs (central or local) in terms of their efficiency (costs), targeting and effectiveness (outreach). Expert estimates suggest that in most countries housing subsidies, excluding war reconstruction, are less than 1% of GDP.

Most of the support aims at homeowners providing a combination of public provision and demand-based assistance (grants, interest subsidies and tax incentives). Romania and Croatia have the most comprehensive housing programs, while in Bulgaria and Former Yugoslav Republic of Macedonia housing has almost disappeared from the policy agenda in the last 15 years. Albania and Moldova are grappling with major economic difficulties, which reduce fiscal support to a limited set of policy measures with inefficient targeting. Although there has been an attempt to reduce the commitment of governments through state provision of housing, an overwhelming majority of the countries still maintain these types of programs. In Albania the target group is limited to households affected by restitution or identified as 'homeless', in Romania and Moldova public housing agencies are using state subsidies (frozen assets in unfinished housing construction) to complete the projects with additional funding from potential homeowners. In Romania, the national housing agency is building subsidised housing for young households. Serbia and Montenegro until recently maintained a socialist type of housing provision through the Solidarity Fund. Similarly, a large number of countries have grants and subsidies for homeowners with a mix of programs assisting war reconstruction (Bosnia and Herzegovina, Croatia and Kosovo/UNMIK) and subsidies to purchase housing (Bulgaria – the 'old savers', Croatia and Romania – contract savings). Tax incentives for homeowners are applied in Romania and Croatia.

Support for the public rental sector is limited to a handful of countries in the region. Romania, and more recently Former Yugoslav Republic of Macedonia have initiated programs for new construction of social rental housing. Similar pilot projects with a credit from Council of Europe Development Bank are under preparation in Bosnia and Herzegovina and Serbia. Housing assistance to low income households is provided in Romania and to a limited extent in Moldova and Bulgaria (energy

allowance). The subsidy mix also includes some rent control in denationalised housing in Croatia, Albania and Bulgaria with no targeting with respect to income.

Despite the relatively low level of direct budget allocations for housing, considerable public resources indirectly flow into the sector. These implicit housing subsidies take a variety of forms: subsidies to cover emergency repairs in multifamily housing, provision of land and infrastructure for owner-occupied and rental housing under new programs (Romania, Serbia, Moldova, Albania), below market rents in public rental housing, non-existent market based property taxation (Serbia, Montenegro, Bosnia and Herzegovina, Former Yugoslav Republic of Macedonia), no value added tax on housing construction (Serbia), no cost-recovery mechanisms for utility infrastructure connection and improvement. This lack of financial transparency in the housing sector, as well as lack of fiscal discipline, reflect the rudimentary nature of fiscal housing policies in the region and needs to be reconsidered. Taxes, fees and targeted subsidies are essential policy tools directed to rationalise housing consumption and encourage private investment in housing. They also mobilise finances for social groups in need of housing support.

In summary, most countries in the region have fiscal policies that support homeowners through a combination of public provision (supply-side subsidies) and demand-based assistance (grants, interest subsidies and tax incentives). The targeting is low, since in most cases programs facilitate access to newly built housing, which is the most expensive form of housing provision at the moment. Owners are expected to match the subsidy with own savings or mortgage and tend to have income well above the average. While these types of programs leverage investment in new construction, it is questionable if scarce public funds should be used to support upper middle income households. Meanwhile little government funding is directed to public rental housing or assistance of low income households experiencing affordability problems. There is no information on the number of units delivered under each program, its cost and/or the cost of different tax deductions and grants. It is imperative to start monitoring for housing policy purposes with transparent indication of the implications for the state budget. This will assist in ensuring the sustainability of fiscal policies.

Figure 10.3 presents the mosaic of demand- and supply-based subsidies supporting access to homeownership in the region. Most of the countries have supply-based programs, which aim at public provision of subsidised housing. Access to homeownership in these cases is for high income households, while limited targeting exists in Albania and Romania. Demand-based subsidies in Croatia and Romania target high income households that can qualify for contract savings loan, while in Bulgaria a small uniform subsidy is given to 'old savers'.

10.2.4 Progress in Establishing a Well-Functioning System of Housing Finance

Financial indicators in the study measured the availability of long-term financing for housing and the diversity of mortgage products. They also explore the relationships of housing and mortgage markets and the efficiency of the legal basis for housing

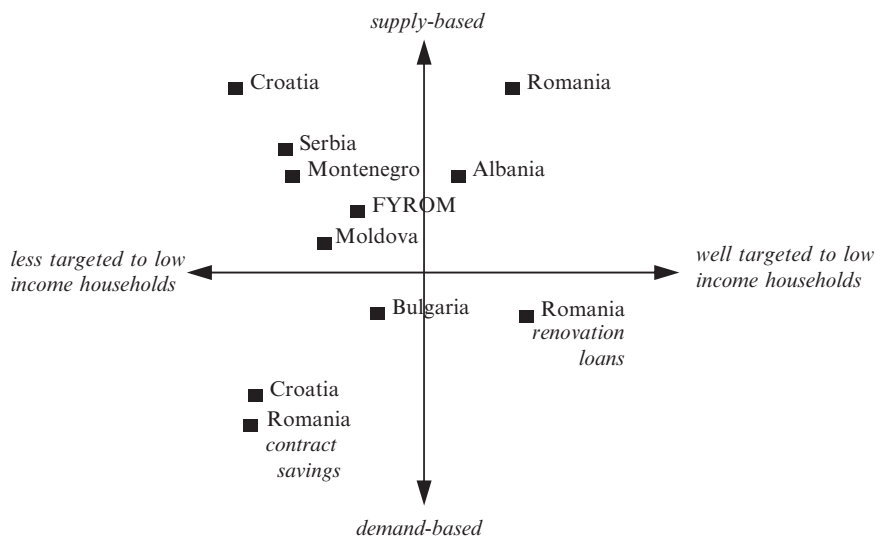


Fig. 10.3 Subsidies to support homeownership in the region

finance (mortgage legislation, collateral, foreclosure). Efficiencies of mortgage institutions can be measured by the terms of mortgage lending – loan-to-value ratio, amortisation period, interest rates – as well as the spread (the margin between interest rates on mortgages and deposits).

The evaluation of housing finance systems in South East Europe concluded that it is still in the early stages of development. Governments identify the lack of housing finance as a main constraint for efficient operation of the housing market and access to affordable housing. Mortgage lending is dominated by large commercial banks, often with foreign ownership, bringing international underwriting and servicing skills. Lenders are competing for consumer lending, particularly in Croatia, lending Bulgaria and Romania, which ultimately is of great assistance in providing more affordable housing finance. Collateralised mortgage lending for the purchase or renovation of housing has grown by 20–40% on average in the last 2 years in Former Yugoslav Republic of Macedonia, Bulgaria and Bosnia and Herzegovina. Banks have started to offer much more competitive financial terms – particularly longer maturities and lower interest rates – and apply less restrictive underwriting criteria. In Romania, for example, concerns over rapid mortgage lending compelled the National Bank of Romania to establish a maximum payment-to-net income ratio of 35% and a maximum loan-to-value ratio of 75%.

The Croatian mortgage market at present, although still far from EU standards, is extremely more developed than any other in the region. The total amount of outstanding mortgages represents 12% of GDP and is 20 times the amount in Bosnia and Herzegovina and over 60 times the amount in Former Yugoslav Republic of Macedonia or Serbia. However, the growth of real estate lending is limited by the

legal and administrative problems, especially those plaguing foreclosure and registration (BiH, Croatia, Serbia, and Former Yugoslav Republic of Macedonia). Banks have conservative underwriting criteria, often requiring two to three guarantors and collateral, due to legal uncertainties and incomplete property registration systems. Banks are inherently suspicious of private developers and there is no lending for new housing construction (in Serbia, Former Yugoslav Republic of Macedonia, and Montenegro due to state ownership over construction land).

Primary market support functions, especially important in market mortgage lending, are still underdeveloped in the region. An effective legal infrastructure, including foreclosure and repossession; an appraisal process based on international standards; credit information bureaus; and mortgage-related insurance products are important support functions, which to some extent exist in Bulgaria and Romania. Overall, the development of effective institutions – credit bureaus, notaries, property appraisers, mortgage brokers – in the emerging housing markets of South East Europe faces numerous challenges. In addition, high interest rates and underreported income in the region, including the substantial amount of informal income, limit both the number of qualifying clients and the size of the loan. The interest rate spread between loans and deposits in local and foreign currency is still considerably high, 2–3 times higher compared to the average in Hungary and Slovakia. As a result of high interest rates and interest rate spreads, but also perceived risks in mortgage lending, banks have focused their marketing on the upper income groups and favour corporate customers. It is estimated that even in Croatia, with the most advanced housing finance system in the region, only 14% of the households can qualify for a mortgage as opposed to 3% in Former Yugoslav Republic of Macedonia or less than 1% in Serbia.

Figure 10.4 schematically represents the relative position of countries in the region with respect to adequate legal framework for mortgage lending and efficient operation of institutions in the primary mortgage market. Croatia, Romania and Bulgaria have achieved significant progress, however, the primary market support functions in Croatia need significant improvement. In Bosnia and Herzegovina and Former Yugoslav Republic of Macedonia the state of property registration system and court-based enforcement of foreclosure limit significantly the potential development of the mortgage market.

10.2.5 Progress in Developing a Competitive Provision System for New Housing

Competition and penetration of the market in the housing provision system have become the most significant factors affecting the supply of new owner-occupied housing. This process has transformed homeownership from a supply-driven into a demand-driven tenure. In a demand-driven housing system consumer preferences and choices are the most powerful influence over the quality, type and the price of newly built housing. Changes in demand, together with the privatisation and deregulation

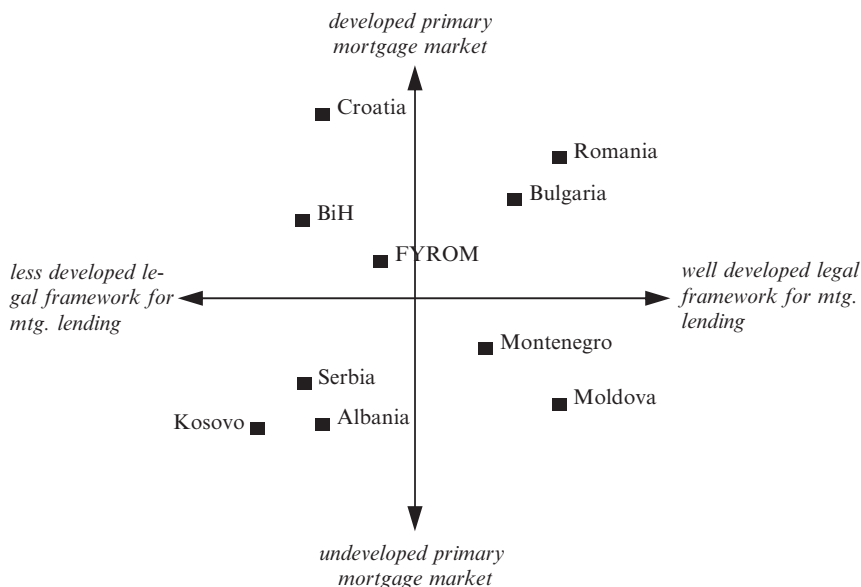


Fig. 10.4 Development of primary mortgage market and legal framework

of supply, are the driving forces behind the adjustment of housing suppliers – housebuilders, financial institutions, landowners, to name a few. New actors have emerged and existing institutions with long-term interests in housing have acquired new roles and responsibilities in the market environment or ceased to exist.

The evaluation of reforms in South East Europe argued that a more diversified structure of housing provision has emerged with self-help, speculative-built and informal housing becoming dominant as opposed to state-funded and state-built housing provision. While some of these forms were part of the socialist system (e.g. in former Yugoslavia and Bulgaria), speculative housebuilding, non-existent under state socialism, has grown steadily across the region. Privatisation measures have not only shifted the balance in new housing production to the private sector, but also to small firms and individual households who now account for over 90% of the total output. These rapid shifts on the supply side result in better quality and more diversity of the final product. In response to demand, but also driven by industrial privatisation and deregulation, a relatively robust private housing industry has emerged in several countries, most notably in Romania, Bulgaria and Croatia. However, private housebuilders are faced with macroeconomic instability, high inflation and an inadequate supply of credit, which contribute to the rising costs of housing inputs. In addition, significant steps towards the establishment of market-oriented housing sectors have been introduced in the early 1990s – the restructuring of subsidies, liberalisation of prices for land, building materials and labour. As a result, the previous shortage of housing has been replaced by a shortage of affordable housing.

Examining the economic efficiency of the housing provision system leads to the conclusion that low levels of output and high production costs indicate significant challenges. Conservative production strategies, risk management and equity financing are the dominant concerns for housebuilders, rather than production efficiency. As might be expected, market agents, largely profit motivated, respond to effective demand rather than need. As a result, low-income and socially marginalised households face increasing housing problems manifested in their inability to afford adequate shelter. Those realities are manifested in the growing share of informal housing. The formal market is delivering better quality with more variety and choice for consumers, compared to the socialist system, but at a price that excludes most households from access to it. This seriously questions the social efficiency of the market-based system. The links between inefficiencies in new housing provision and rapid growth of informal housing in large settlements in South East Europe, although complicated in nature, need to be explored in a comprehensive manner. Although there might be a number of factors at play, leading to diverging experiences across countries and cities in the region, informal settlements have become a 'solution' in terms of social response by the urban poor to an inefficient housing and land provision system.

The problem of informal settlement formation appears to be one of the most significant challenges in the region with long-term consequences for the economic competitiveness and social cohesion of these countries and their cities. Figure 10.5 schematically represents the degree of progress achieved in establishing competitive and efficient systems for the provision of new housing using two important

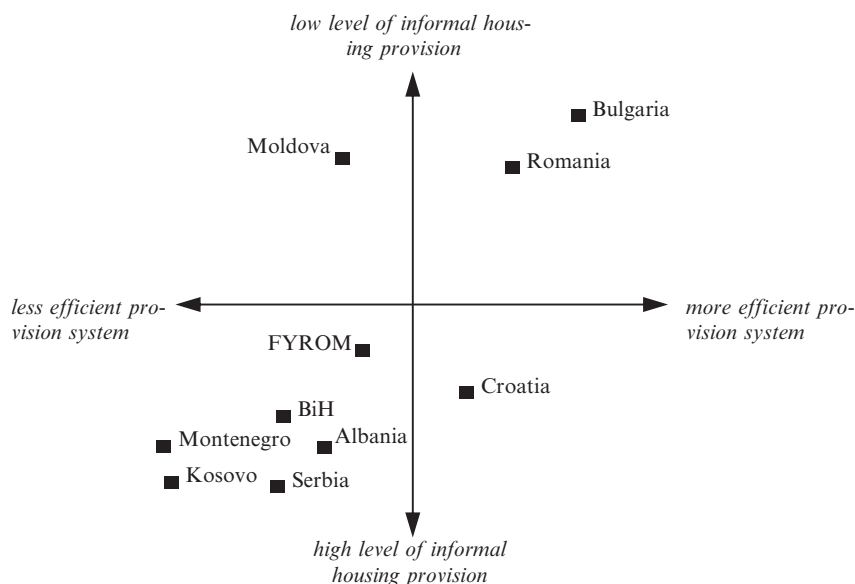


Fig. 10.5 Development of efficient framework for new housing provision

indicators – efficient operation of institutions in the market for new housing and the level of informal housing provision. Bulgaria and Romania, and to some extent Croatia have achieved significant progress in that regard. In the case of Croatia informal housing exists – both as a socialist legacy and as a result of inefficient land management and planning systems. In this context, new informal housing in the coastal areas of Croatia and Montenegro is not necessarily a manifestation of ‘illegality of need’, which might be the case in a number of other countries in the region. By contrast, in Moldova, progress towards a more efficient and competitive institutional framework of housing producers and land management institutions (with housing finance being a major exception) is a significant factor in the production of new housing through the formal market. However, in the other cluster of countries the lack of supportive regulatory and institutional framework is a major disadvantage for the efficient and competitive new housing provision, which is manifested in high levels of housing produced outside of the formal market.

10.3 Evaluation of Housing System Performance

10.3.1 Distributional Efficiency

The analysis looked at the degree to which the actual national housing stock matches household demand. Is the stock in the right place, or are there cities or regions where housing shortages, or even homelessness, exist in the face of an overall national surplus? Is the housing supply appropriate in terms of its distribution in accordance with family characteristics? Is housing used efficiently or are there high vacancy levels?

Housing availability in South East Europe in terms of number of dwellings per 1,000 people varies from 254 in Albania to 465 in Bulgaria. Although these aggregate indicators are lower than the average for EU countries, the GDP per capita in the region is one third of the average in the EU, which affects the amount of investment available for improvement in housing conditions. It is difficult to find both reliable data and good measures for the quantitative aspects of the housing situation in the region. Dwellings tend to be small with 2.7 rooms on average; Romania stands out with 37 m² of average useful floor space per person.

Households tend to be larger in Albania and Kosovo/UNMIK, while Bulgaria has the smallest household size of 2.7. More than 40% of the households in the region have more than three members, which highlights an important dimension of the housing problem. The structure of the housing stock – in terms of size and number of rooms is inadequate compared to the size and structure of households. However, all countries with the exception of Kosovo/UNMIK have a surplus of housing compared to the number of households. The housing surplus is in the range of 12–14% in most countries with Albania (7%) and Montenegro (24%) being the two extreme situations. In addition to housing surplus, most of the countries have

high vacancy rates – as high as 24% in Bulgaria and between 10% and 14% in most of the other countries – which demonstrates inefficient use of the housing stock. At the same time, large urban centres, particularly in countries affected by war and the refugee crisis, experience considerable shortages of housing and overcrowding. Thus the general mismatch between the composition of households and housing stock is compounded by a spatial mismatch. The stock is not in the right place, there are cities where housing shortages, or even homelessness, exist in the face of an overall national surplus. High vacancy rates might be due to substandardness of housing, lack of demand in rural areas or people's reluctance to return to pre-war places of residence.

10.3.2 Improvement of Housing Quality

In South East Europe quality problems of the existing housing stock have attracted significant public attention. The available data indicate overall housing improvement in the region since the 1990s. However, cumulative shortages of financing for infrastructure development in rural areas during communism, coupled with scarcity of public resources in the last decade, have resulted in widening differences in access to basic infrastructure between urban and rural areas. While the majority of the urban housing (80–98%) has piped water, two thirds of the dwellings in rural Moldova, Albania and Romania lack modern water and sewerage facilities. At the national level, the provision of piped sewer is particularly critical. It is lacking in close to 80–70% of the dwellings in BiH and Moldova, while in Albania and Romania the share is 60%. Furthermore, the scarcity of resources for much-needed upgrades in the technical infrastructure has led to deterioration of existing networks and frequent disruption of services. Indeed, the question of housing quality in South East Europe is directly related to improvement of access to safe drinking water and sanitation (Fig. 10.6).

Closely related to housing quality are the age characteristics of the housing stock. The available data indicate that half of the housing across the region was built after the 1970s. The output from 1971 to 1989 was particularly significant in all countries (30–45%) with the exception of Romania, where the share of new construction between 1946 and 1970 played a more prominent role. Housing production in post-transition years added close to 18% to the housing stock in Albania and Former Yugoslav Republic of Macedonia, while in the other countries this share was lower than 10%. Despite the fact that the housing stock is relatively new, close to 30% is in the form of multi-apartment housing, which has deteriorated significantly due to lack of maintenance. Another characteristic feature is the existence of panel housing, mostly in urban areas. Estimates suggest that it makes up to 30% of the housing stock in Albania and more than 20% in Bulgaria, Romania and Moldova. These panel blocks are generally in poor condition with major need for significant upgrades to ensure safety, quality and energy efficiency standards.



Fig. 10.6 Substandard housing in the historical district of Skopje

Housing quality in war affected countries has deteriorated substantially. In Bosnia and Herzegovina these challenges are particularly significant. Some 445,000 homes in the country have been partially or totally destroyed, which is more than 37% of pre-war housing stock. In Kosovo/UNMIK, 30% of the housing stock was damaged and in some cases whole villages were totally destroyed. According to the Ministry of Public Construction in Croatia the damaged and demolished housing stock is over 200,000 dwelling units, or close to 13% of the total for the country.

While it is obviously difficult to compare progress achieved with respect to availability and quality of housing, Fig. 10.7 maps out the relative position of different countries

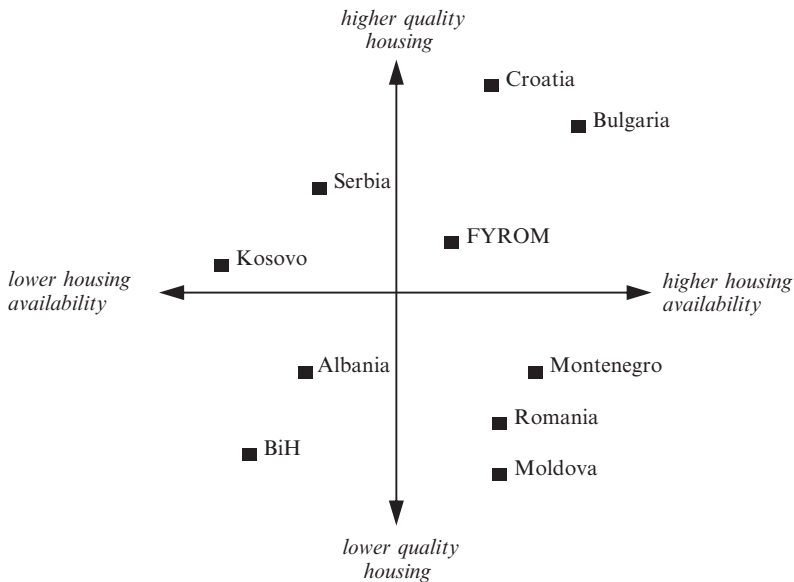


Fig. 10.7 Housing availability versus access to modern water and sewer services

using data on housing per 1,000 (correlated with average size of units) and share of housing stock with piped water and sewer. Croatia, Bulgaria and Former Yugoslav Republic of Macedonia have generally better housing conditions, while in Montenegro, Romania and Moldova despite general availability of housing, quality is problematic due to lack of essential services. This stylistic presentation positions the rest of the countries in the more problematic areas due to housing shortages, war-related damages to housing and low quality of infrastructure provision.

10.3.3 Stability of Housing Investment and Production

From a quantitative perspective, the level of new housing construction has reached low levels with rates of new dwellings per 1,000 around half of the level in the 1990s. The decline in Bulgaria, Moldova and Serbia was much more pronounced due to the rapid withdrawal of state support for housing and economic difficulties. Despite the general picture of profound recession observed till the mid-1990s, a rather heterogeneous situation has emerged. Rates of housing production are relatively stable across the region with Former Yugoslav Republic of Macedonia and Croatia maintaining a level close to 2 units per 1,000 residents, while in the other countries this is less than 1/1,000. Most of the new housing (over 80%) is produced by private developers with a significant share of single family housing built mostly in the form of self-help.

Reportedly, a significant share of new housing across the region is illegal leading to the formation of informal settlements in Tirana, Belgrade, Pristina and Sarajevo. Among other systemic reasons, the flow of refugees and DPs has contributed to growth in informal housing. Apart from addressing urgent housing needs, illegal investments in real estate have been used by many households as a ‘shield’ against instability and hyper-inflation. Given the low production levels in the region during the last decade, it appears likely that a large cut back in residential capital has occurred. However, this is consistent with lower population growth and might be offset by investment in renewal as well as informal construction of housing.

Notwithstanding progress, housing production capacity in the region remains limited because:

- the lack of serviced land has resulted in high land prices in major cities
- cash payments have become the basis for financing home construction in the absence of alternative financing and the unattractiveness of mortgages financed at market rates
- private builders are servicing mainly the upper end of the housing market and little capability is being developed to serve the general market.

10.3.4 Affordability and Choice

The distribution of the housing stock by tenure category is characterised by a reduced share of public housing stock and a predominance of owner occupied housing. In most of the countries across the region, owner occupation exceeds 90%, which is well above the 60% average in the European Union. Although some of this housing might actually function as private rental, responding to pressures from migration and labour market adjustment, the tenure structure in South East Europe is quite polarised leaving a small and residual sector of publicly owned social housing (ranging from close to 9% in Bulgaria and Bosnia and Herzegovina to less than 1% in Albania and Former Yugoslav Republic of Macedonia).

10.3.4.1 Affordability in Public Rental Housing

Despite rapid privatisation, the public rental sector in the region includes close to 790,000 units. In most countries the sector still operates like a ‘command’ system where ownership and management is vested with the state and municipalities and pricing policies are not sensitive to demand or quality of housing services. Allocation decisions in the shrinking portfolio continue to rely on bureaucratic processes, although preference is given to socially disadvantaged households. Rents tend to be less than 10% of market rents; however arrears have escalated due to concentration of poor families in the sector. Even though public housing in South East Europe functions more like a safety net, it will be important to introduce housing

allowances, which would ultimately seek to integrate the administration of all household welfare payments (e.g. including utility compensation payments and rent) within a common, transparent framework.

10.3.4.2 Affordability in Owner-Occupied Housing

In most countries, as a result of mass privatisation, the size of the owner occupied sector has increased substantially mostly through transfer to sitting tenants (free of charge, through vouchers or nominal fee). While these populist policies have been equally attractive across the region, governments have been reluctant to introduce market-based property taxes and other fiscal mechanisms to leverage private investment in the maintenance of these housing assets. Despite the economic and social hardships, most households in South East Europe have mortgage free housing. In some buoyant markets this translates into substantial wealth 10–12 times the average annual household income. The analysis revealed that housing costs in selected countries in the region show a distorted pattern. First, housing costs consume less than 8% of the household budget (Moldova is a notable exception), which is much lower than the European Union average. Second, expenditure on utilities is much higher than spending on maintenance and other housing related costs with a significant imbalance in Serbia and Former Yugoslav Republic of Macedonia. The consequences are no doubt further deterioration in the quality and standard of housing.

Homeownership across the region has become increasingly polarised including an affluent and a low-income ownership sector. At present it conveys mixed images ranging from the established, financially secure multiple income households, the asset rich but cash poor elderly, to the unemployed and overcrowded homeowners. None of those categories is homogeneous; however, despite these differences house price inflation has shifted the market power to existing owners, while newly formed households are disadvantaged. Rising prices, particularly in the capital cities, are central to the viability of the homeownership market. Differences are reinforced by overcrowding or overconsumption as well as the growing differences in the house prices in particular submarkets (e.g. inner cities vs peripheral housing estates).

Housing choices in the region today are very limited – households need to become homeowners, or rent in the informal private rental sector. Chances to qualify for public housing are marginal, given its small share and low turnover in most countries. Notwithstanding preferences for homeownership, most households in South East Europe overwhelmingly do not have the income and savings to purchase a home. Low wages and employment uncertainty coupled with escalating housing costs and mortgage rates have reduced effective housing demand. Even though households were prepared to pay higher costs for their housing, they found themselves squeezed out of the homeownership market with limited opportunities to improve their housing situation. The gap between income and entry costs has increased dramatically. Current mortgage arrangements, income levels and house prices have created significant affordability constraints for new households (Fig. 10.8).

The housing choices for refugees are almost non-existent. South East Europe has experienced the largest refugee crisis in Europe since World War II. Although



Fig. 10.8 Apartments in the pedestrian zone of Skopje are in high demand

significant progress has been made, some 850,000 displaced people are still in need of durable solutions. This applies in particular to more than 20,000 elderly and vulnerable refugees and IDPs who continue to reside in collective centres.

Figure 10.9 presents the comparative position of the countries under review using two proxies for stability of housing investment and tenure choice. Using data on rates of new construction per 1,000 and level of homeownership, the figure stylistically presents the opportunity for housing choice for new households. In countries where the tenure structure is less polarised – Bosnia and Herzegovina, Croatia and Moldova – households have some choices. A high level of new construction in

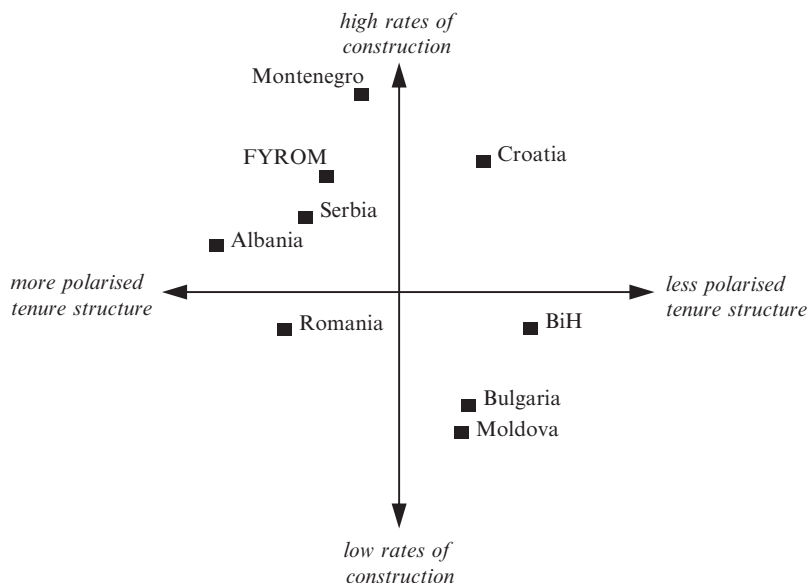


Fig. 10.9 Housing investment versus tenure choice

these cases might enable mobility (e.g. access to public and private rental, filtering of existing owner-occupied housing). In the other cluster of countries – Albania, Former Yugoslav Republic of Macedonia, Serbia and Montenegro – due to the extremely polarised tenure structure and perhaps high demand in some urban areas, households are housing themselves investing in new, often informal housing.

10.4 Concluding Comments: The Unfinished Agenda

Housing represents a vast potential source of economic growth for the countries in South East Europe. With the quality and quantity backlogs in the sector, large amounts of investments for the years to come would be necessary to improve the housing conditions. Indeed, housing quality is very much related to improved access to safe drinking water and sewer, particularly in rural communities. The importance of housing in the national economy can be measured in terms of investment, employment, consumer expenditure, etc. The value of services derived from housing amounts to 15–20% of domestic consumer expenditures and forms a large component of national household wealth. Housing privatisation applied in almost universal manner across the region has transferred significant national assets in private ownership. While this has boosted private investment in the sector, multi-apartment housing in urban areas has deteriorated due to lack of effective legal, organisational and financial measures for its management.

Housing supply is important in the economy since it can be used as a regulatory tool by governments to counteract the cyclical nature of housing investment. Housing supply also generates a series of multiplier effects. It requires considerable investment in the provision of infrastructure and neighbourhood services. The maintenance and renewal of housing generates long-term operating costs and requirements for the down stream producers of materials and services. These important secondary impacts need to be considered together with investment in new housing construction and existing housing as a major engine of growth in South East Europe.

In conclusion, while recognising the differences among the countries of South East Europe, this study has highlighted several common issues pertaining to housing reforms. First, the analysis has used a set of indicators to provide credible quantitative perspective on comparative housing system performance, as well as insights into strategic policy questions. These policy and market indicators provide a rapid, inexpensive, but nevertheless credible perspective on housing policy reforms and need to be monitored on a regular basis. In addition to important information for policy makers on further reforms addressing significant constraints, this comparative approach facilitates collective learning from the experience of the most successful countries.

Second, the comparative evaluation suggests that a much stronger commitment to comprehensive reforms in the major policy areas leads to better housing system performance. Although housing conditions were different at the start of the transition, and some nations were better housed than others, it appears that stronger policy environments and the choice of policy instruments have enhanced the performance of the most successful reformers. The research also highlights patterns of divergence in policy outcomes in the region, based on policy choices made by subsequent governments. Attempting to simplify apparently very complicated issues, one could make judgments and/or recommendations about the strategy and sequencing of reform. Despite their differences and dependency on socialist legacy, the countries' experience suggests links between specific types of reforms and performance. It might be argued that there is a 'reform path' that countries have to follow to successfully improve market performance. This 'reform path' also implies a more strategic approach to housing reforms, one that brings housing policy back on the transition agenda.

Third, accelerating the restructuring of the housing sector along market principles is closely linked to the stabilisation of the economy but also depend on the commitment of governments to improve the legal and institutional framework for competitive housing markets, as well as fiscal and financial policies. One of the fundamental questions addressed in this book relates to the importance of institutions in the housing market which account for the critical differences in the nature and operation of different housing systems. In particular, the analysis evaluates the extent to which economic and social efficiency depends on the intended or unintended actions and behaviour of these agents in two interrelated markets – for housing management services and new housing. Future housing policy intervention needs to address legal changes ensuring the effective management of privatised multifamily housing, as well as procedures to finance maintenance and renovation. Given the rapid growth

of informal housing across the region, it is also imperative to undertake significant reforms to improve the operation of key institutions in the provision of new housing. Another priority should be the legalisation and upgrading of informal settlements to transform them into viable parts of the 'formal city'.

On the fiscal side, policies that ensure a more efficient use of public resources in the housing sector, as well as policies aiming at establishing a more efficient and equitable distribution of subsidies, seem to be necessary. In particular, support for social rental housing and demand-based assistance to low income households should be introduced. Separate, but not necessarily complementary policy measures and short-lived financial incentives promoting homeownership need to be reconsidered. On the financial side, policy reforms so far have encouraged the transition from a highly centralised and subsidised system of housing finance to a system driven by private initiative and real cost of housing services to consumers. Policies to develop a more efficient infrastructure supporting the primary mortgage market need to receive priority in the region.

Annex 1

Housing Policy and Housing Market Indicators Survey



Regional Study on Trends and Progress in Housing Reforms

Albania, Bulgaria, Bosnia and Herzegovina, Croatia, Former Yugoslav Republic of Macedonia, Romania, Republic of Moldova, Serbia and Montenegro

Commissioned by Council of Europe Development Bank

The Council of Europe Development Bank, in partnership with Council of Europe and the United Nations Economic Commission for Europe, is reviewing progress in housing reforms in eight countries in South East Europe (SEE). The study will incorporate key housing statistics of the countries under review based on a set of indicators approved at Council of Europe SEE Housing Network Meeting in Zagreb, 6–7 November 2003.

The data request is organized in five thematic blocks:

- General demographic data
- Quality of the housing stock
- New housing construction and investment
- Affordability of housing
- Housing markets

In most of the cases the data refer to last/previous census with a particular emphasis on differences between the national average and indicators relevant to urban areas.

Key Housing Indicators, 1995–2001

1. General Data

- 1.1 Population growth (%), 1990–2000
- 1.2 Land area, population and population density (latest year available)
- 1.3 Population forecast growth/decline and urban/rural (*1,000)
- 1.4 Population by major age groups (% of total), latest year available
- 1.6 Private households (*1,000)
- 1.7 Average household size (last census)
- 1.8 Distribution by household characteristics (%) latest year available
- 1.9 Migration (*1,000) and immigration of total population
- 1.10 Refugees and displaced people (*1,000) 1995–2003
- 1.11 Unemployment rates (% of labour force) 1995–2003
- 1.12 Gross Domestic Product per capita (*US\$) 1995–2003
- 1.13 Gross investment in housing (in US\$ and as % of gross capital formation)
- 1.14 Investment in new housing construction (1995–2003)

2. Quality of the Housing Stock

- 2.1 Average useful floor area per dwelling (m²)
- 2.2 Average number of rooms per dwelling and per new dwelling
- 2.3 Bath/shower and central heating in dwelling stock (% of total stock)
- 2.4 Age of dwelling stock: <1919; 1920–1945; 1946–1970; 1971–1989; 1990–2003

Quality of the Housing Stock in Urban Areas

- 2.5 Average useful floor area per dwelling (m²)
- 2.6 Average number of rooms per dwelling and per new dwelling
- 2.7 Bath/shower and central heating in dwelling stock (% of total stock)

3. Availability of Dwellings and Tenure (Last and Previous Census)

- 3.1 Dwellings per 1,000 inhabitants
 - 3.2 Vacant and substandard dwellings (% of total dwelling stock)
 - 3.3 One-family dwellings in total dwelling stock (%), latest year available
 - 3.3A Multifamily dwellings in total dwelling stock (%), latest year available
 - 3.4 Dwelling stock by tenure: rental, owner occupied, other (% of total stock)
 - 3.5 Social rental dwellings as % of total housing stock
- Availability of dwellings and tenure in urban areas (last and previous census)
- 3.6 Dwellings per 1,000 inhabitants
 - 3.7 Multifamily dwellings in total dwelling stock (%), latest year available
 - 3.8 Dwelling stock by tenure: rental, owner occupied, other (% of total stock)

4. New Construction

- 4.1 Dwellings newly completed per 1,000 inhabitants (1990 and 2002)
- 4.2 Dwellings newly completed (*1,000) 1995–2003
- 4.3 Share of new dwellings developed by the private sector (% total) 1995–2003
- 4.4 Newly completed one-family houses (% of all newly completed dwellings)

5. Affordability of Housing

- 5.1 Consumer price indices (1995 = 100) 1995–2003
- 5.2 Average housing expenditure (% of total expenditure) 1995 and 2002
- 5.3 Average housing expenditure on utilities (% of total expenditure) 1995 and 2002
- 5.4 Rents in social rental dwellings (2002)
- 5.5 Rents in private rental dwellings (2002, capital cities)
- 5.6 Price per sq m in secondary markets (2002, 2004 capital cities/3 submarkets)
- 5.7 Prices per sq m of newly completed dwellings (2002, 2004 in capital cities)
- 5.8 Construction costs of newly completed dwellings (2002)
- 5.9 Interest rate for mortgages (%) 1995–2002
- 5.10 Outstanding residential mortgage debt (as % of GDP)
- 5.11 Housing subsidies as a share of GDP (%)

Annex 2

Housing Policy Survey



Regional Study on Trends and Progress in Housing Reforms

Albania, Bulgaria, Bosnia and Herzegovina, Croatia, Former Yugoslav Republic of Macedonia, Romania, Republic of Moldova, Serbia and Montenegro

1 Objectives of the Survey

The Council of Europe in partnership with the United Nations Economic Commission for Europe and the Council of Europe Development Bank is working on a *Regional Study of Trends and Progress in Housing Reforms* that will assess housing policy and market performance in eight countries in South Eastern Europe (SEE). *The study* is intended to address major policy challenges and to provide recommendation for the development of appropriate regulatory, fiscal and financial instruments to enable the operation of housing markets and access to affordable housing. As such, the assessment can be instrumental in establishing a more efficient and equitable housing policy in the region.

The objective of the survey is to identify housing policy priorities and challenges that need to be addressed in the *Regional Study*. This brief questionnaire is designed to elicit responses on these issues from experts participating in the SEE Housing Network Meeting in Strasbourg, 6–7 December 2004.

Please state your name, position, institutional affiliation _____

Country _____

Evaluation of Housing Policy Priorities

In your opinion, which of the following are major housing policy priorities in your country? Please rank in order of priority: 1-being the most important, 3-being the least important (N-no opinion).

1. Regulatory reforms	1	2	3	N
1.1 Legal framework for owner-occupied housing				
1.2 Legal framework for social rental housing				
1.3 Legal framework for mortgage lending and foreclosure				
1.4 Annex 2 Housing policy Survey				
2. Fiscal reforms (subsidies, tax incentives)	1	2	3	N
2.1 Subsidies for the provision of social housing				
2.2 Subsidies to low income households				
2.3 Subsidies to specific groups for purchase of housing				
2.4 Subsidies for investment in housing renovation				
2.5 Other (please specify)				
3. Financial reforms	1	2	3	N
3.1 Development of competitive mortgage products for the purchase of housing				
3.2 Development of competitive products for financing of renovation				
3.3 Other (please specify)				
4. Institutional reforms	1	2	3	N
4.1 Training and capacity building of municipal housing experts				
4.2 Training and capacity building of homeowners' associations				
4.3 Training and capacity building of mortgage brokers, appraisers				
4.4 Training of non-profit housing institutions providing social housing services				

Evaluation of Major Challenges in the Housing Sector

The list below highlights common housing problems across the region identified in comparative studies of the SEE Housing Network. In your opinion, which are the major challenges in the housing sector in your country? Please rank in the order of priority: 1-being the most important, 3-being the least important (N-no opinion).

Major challenges	1	2	3	N
1. Shortage of affordable social rental housing				
2. Shortage of affordable owner-occupied housing				
3. Maintenance and management of private multifamily housing				

4. Maintenance and management of social housing
5. Low levels of new housing construction
6. Lack of serviced land for new housing
7. Lack of affordable housing finance
8. Lack of housing for refugees and displaced people
9. Poor quality of existing housing
10. Other (please specify)

Evaluation of Progress in Housing Reforms

In your opinion, which of the following are major housing policy priorities in your country? Please rank in order of priority: 1-being the most important, 3-being the least important (N-no opinion).

Please state your expert opinion

- | | | | | |
|--|---|---|---|---|
| 1. Progress in development of regulatory frameworks | 1 | 2 | 3 | N |
| 1.1 Legal framework for owner-occupied housing | | | | |
| 1.2 Legal framework for social rental housing | | | | |
| 1.3 Legal framework for mortgage lending and foreclosure | | | | |
| 1.4 Other (please specify) | | | | |
| 2. Progress in implementation of fiscal reforms (subsidies, tax incentives) | 1 | 2 | 3 | N |
| 2.1 Subsidies for the provision of social housing | | | | |
| 2.2 Subsidies to low income households | | | | |
| 2.3 Subsidies to specific groups for purchase of housing | | | | |
| 2.4 Subsidies for investment in housing renovation | | | | |
| 2.5 Other (please specify) | | | | |
| 3. Progress in implementation of financial reforms | 1 | 2 | 3 | N |
| 3.1 Development of competitive mortgage products for the purchase of housing | | | | |
| 3.2 Development of competitive products for financing of renovation | | | | |
| 3.3 Other (please specify) | | | | |
| 4. Progress in implementation of institutional reforms | 1 | 2 | 3 | N |
| 4.1 Training and capacity building of municipal housing experts | | | | |
| 4.2 Training and capacity building of homeowners' associations | | | | |

- 4.3 Training and capacity building of mortgage brokers, appraisers
- 4.4 Training of non-profit housing institutions providing social housing services

Closing Comments

Finally, do you have any comments or suggestions regarding the content of the *Regional Study*?

Thank you very much for your collaboration.

Please forward the completed questionnaire to:

Ms Patricia Nicli, Council of Europe

Patricia.nicli@coe.int

Fax + 33 (0) 388 41 27 18

References

- Abbott J (2002) An analysis of informal settlement upgrading and critique of existing methodological approaches. *Habitat Int* 26:303–315
- Adams CT (1987) The politics of privatization. In: Turner B, Kemeny J, Lundqvist L (eds) *Between state and market: Housing in the post-industrial era*. Almqvist and Wiksell International, Gayle, pp 127–209
- Agency for Statistics of Bosnia and Herzegovina (2004) *The living standards measurement survey Bosnia & Herzegovina 2001*. Agency for statistics of Bosnia and Herzegovina, Sarajevo
- Allcock J (2000) *Explaining Yugoslavia*. Columbia University Press, New York
- Almond M (1988) *Decline without fall: Romania under Ceausescu*. Institute for European Defence and Strategic Studies, London
- Ambrose P (1991) The housing provision chain as a comparative analysis framework. *Scand Hous Plan Res* 8:233–245
- Andersen HS, Munk A (1994) The welfare state versus the social market economy—Comparison and evaluation of housing policies in Denmark and West Germany with special importance attached to social housing and rent control. *Scand Hous Plan Res* 11:1–25
- Andoni D (2007) *Legalization of informal settlements in Albania*. Paper presented at 5th regional Vienna declaration review meeting, Stability Pact for South Eastern Europe, 22–23 October 2007
- Andrusz G (1992) The Soviet Union: An introduction. In: Turner B, Hegedüs J, Tosics I (eds) *The reform of housing in Eastern Europe and the Soviet Union*. Routledge, London, pp 237–280
- Angel S (2000) *Housing policy matters—A global analysis*. Oxford University Press, New York
- Balchin P (ed) (1996) *Housing policy in Europe*. Routledge, London
- Ball M (1987) Housing analysis: Time for a theoretical refocus? *Housing Stud* 1, 3:147–165
- Ball M (1996) *Housing and the construction industry: A troubled relationship*. Joseph Rowntree Foundation, York
- Ball M (2007) *European housing review 2007*. Royal Institute of Chartered Surveyors, Brussels
- Ball M, Grilli M (1997) *Housing markets and economic convergence in the EU*. Report for the Royal institute of chartered surveyors and the European institute. South Bank University, London
- Ball M, Harloe M, Martens M (1988) *Housing and social change in Europe and the USA*. Routledge, London
- Banks C, O’Leary S, Rabenhorst C (1996) Privatized housing and development of condominiums in Central and Eastern Europe. *Rev Urb Reg Dev Stud* 8(2):141–155
- Barlow J, Duncan S (1994) *Success and failure in housing provision*. Elsevier Science Ltd, Oxford
- Barlow J, King A (1992) *The state, the market and competitive strategy: Housebuilders in the UK, France and Sweden*. *Environ Plann A* 24:381–400
- Baross P, Struyk R (1993) Housing transition in Eastern Europe: Progress and problems. *Cities* 10(3):179–188
- Belgrade Urbanism Institute (BUI) (2003) *Programme offering solutions for the issue of the unsafe settlements in Belgrade*. Belgrade Urbanism Institute, Belgrade

- Bertaud A, Renaud B (1994) Cities without land markets. Lessons of the failed socialist experiment (World Bank Discussion Paper No.227). The World Bank, Washington DC
- Bertaud A, Renaud B (1997) Socialist cities without land markets. *J Urban Econ* 41(1):137–51
- Besnik A, Lulo K, Myftiu G (2003) Tirana: The challenge of urban development. CETIS, Tirana
- Boelhouwer P, Heijden H (1992) Housing systems in Europe: Part 1: A comprehensive study of housing policy. Delft University Press, Delft
- Bolay JC (2006) Slums and urban development: Questions on society and globalisation. *Eur J Dev Res* 18(2):284–298
- Bothwell J, Merrill S (2005) Regulation and supervision of mortgage lending in emerging markets an assessment in Bulgaria and Romania. The Urban Institute, Washington DC
- Bourne L (1981) The geography of housing. Edward Arnold, London
- Bramley G, Bartlett W, Lambert C (1995) Planning, the market and private housebuilding. UCL Press Ltd, London
- Bresin M, Kaganova O, Kosareva N, Pritkov A, Struyk R (1996) The Russian Federation. In: Clapham D, Hegedüs J, Kintrea K, Tosics I, Kay H (eds) Housing privatization in Eastern Europe. Greenwood Press, Westport, pp 79–97
- Buckley R, Mini F (2000) From Commissars to Mayors: Cities in Transition Economies. The World Bank, Washington DC
- Buckley R, Tsenkova S (2001) Housing market systems in reforming socialist economies: Comparative indicators of performance and policy. *Eur Hous Pol* 2:1–34
- Buckley R, Tsenkova S (2006) Urban housing markets in transition: New instruments to assist the poor. In Tsenkova S and Nedovic-Budic Z (eds) The Urban Mosaic of Post-socialist Europe, Springer-Verlag, Heidelberg, pp 173–194
- Burns L, Grebler L (1977) The housing of nations: Analysis and policy in a comparative framework. Macmillan, London
- Burns L, Grebler L (1986) The Future of Housing Markets. Plenum, New York
- Burns T, Caldarcovic O, Kregar J, Sekulic D, Woodward A (1981) Citizen participation in housing management and local community development: The case of Yugoslavia. Department of Sociology, Uppsala
- Butler S, Flynn N, Merrill S, Rabenhorst C, Zecic T (2004) Real estate finance and the real estate market in Bosnia: Unlocking capital for development. The Urban Institute, Washington DC
- Carter F (1986) Tirana. *Cities* 3(4):270–281
- Carter F (1990) Housing policy in Bulgaria. In: Sillince J (ed) Housing policies in Eastern Europe and the Soviet Union. Routledge, London, pp 170–227
- Clapham D (1995) Privatization and the East European housing model. *Urban Stud* 32(415):679–694
- Clapham D, Hegedüs J, Kintrea K, Tosics I, Kay H (eds) (1996) Housing privatization in Eastern Europe. Greenwood Press, Westport
- Cohen LJ (1997) Embattled democracy: Postcommunist Croatia in transition. In: Dawisha K, Parrot B (eds) Politics, power, and the struggle for democracy in South-East Europe. Cambridge University Press, Cambridge, pp 69–103
- Colliers International (2007a) Market overview: Romania, first half, 2007. Colliers International, Bucharest
- Colliers International (2007b) Market overview: Holiday homes, Bulgaria, second half, 2007. Colliers International, Sofia
- Colliers International (2008a) Market overview: Croatia, first half, 2008. Colliers International, Zagreb
- Colliers International (2008b) Market overview: Residential, Sofia, first half, 2008. Colliers International, Sofia
- Colliers International (2008c) Market overview: Romania, first Half, 2007. Colliers International, Bucharest
- Council of Europe (CoE) (2001) South East Europe housing network country reports, Paris. Council of Europe, Strasbourg

- Council of Europe (CoE) (2002) Policy guidelines on access to housing for disadvantaged categories of persons. CS-LO (2001) 31, ECSLO2001.31, Group of Specialists on Access to Housing, Strasbourg
- Council of Europe (CoE) (2003a) Recent demographic development in Europe. Council of Europe Publishing, Strasbourg
- Council of Europe (CoE) (2003b) South East Europe housing network country reports, Zagreb. Council of Europe, Strasbourg
- Council of Europe (CoE) (2004) South East Europe housing network country reports, Strasbourg. Council of Europe, Strasbourg
- Council of Europe Development Bank (CEB) (2004) Housing in South Eastern Europe. Solving a puzzle of challenges. Council of Europe Development Bank, Paris
- Council of Europe Development Bank (CEB) (2005) Annual Report 2005. CEB, Paris
- Council of Europe Development Bank and the World Bank (2004) Housing in South Eastern Europe: Solving the problem. Paris
- De Melo M, Denizler C, Gelb A, Tenev S (1997) Circumstance and Choice: The Role of Initial Conditions and Policies in Transition Economies. Policy Research Working Group Paper 1866. The World Bank, Washington DC
- De Soto H (2003) The mystery of capital: Why capitalism triumphs in the West and fails elsewhere. Basic Books, New York
- Dickens P, Duncan S, Goodwin M, Gray F (1985) Housing States and Localities. Methuen, London
- Dimitrov D (2004) Monitoring and analysis of the housing stock and housing market in 2004. Ministry of regional development and improvement, Sofia
- Doling J (1997) Comparative housing policy: Government and housing in advanced industrialised countries. St. Martin's Press, New York
- Doling J, Stafford B (1989) Home ownership: The diversity of experience. Gower Publishing Company, Brookfield
- Donnison D (1967) The government of housing. Penguin Books, Harmondsworth
- Donnison D, Ungerson C (1982) Housing policy. Penguin Books, London
- Dübel A, Tsenkova S in collaboration with Hegedüs J, Tosics I, Pfeiffer U, Weltzien D (1997) Human settlement developments in the transition economies of central and eastern Europe. United Nations, Economic Commission for Europe, Geneva
- Duncan S, Barlow J (1991) Marketisation or regulation in housing provision? Sweden and the E4 growth region in European perspective. Scand Hous Plan Res 8(4):197–219
- Economic Commission for Europe (ECE) (1996) Annual bulletin for housing and building statistics for Europe and North America. United Nations, Geneva
- Economic Commission for Europe (ECE) (1998) Annual bulletin of housing and building statistics for Europe and North America. United Nations, Geneva
- Economic Commission for Europe (ECE) (2000a) Annual bulletin of housing and building statistics for Europe and North America. United Nations, Geneva
- Economic Commission for Europe (ECE) (2000b) Country profiles on housing: Romania. United Nations Economic Commission for Europe, Geneva
- Economic Commission for Europe (ECE) (2001) Country profiles on housing: Moldova. United Nations Economic Commission for Europe, Geneva
- Economic Commission for Europe (ECE) (2002) Country profiles on housing: Albania. United Nations Economic Commission for Europe, Geneva
- Economic Commission for Europe (ECE) (2004) Economic survey of Europe 2004. United Nations Economic Commission for Europe, New York
- Economic Commission for Europe (ECE) (2005) Country profiles on housing: Serbia and Montenegro. United Nations Economic Commission for Europe, Geneva
- Ellman M (1989) Socialist Planning (2nd edn.). Cambridge University Press, Cambridge
- Esping-Andersen G (1990) The three worlds of welfare capitalism. Polity Press, Cambridge
- Euroconstruct (1995) The construction market in Eastern Europe. A series of papers prepared for the Euroconstruct conference Budapest, 1–2, December 1995

- European Academy of the Urban Environment (EAUE) (1993) Strategies of development for central European metropolises. Warszawa Conference Report, Berlin
- European Bank for Reconstruction and Development (EBRD) (2004) Transition report 2004. EBRD, London
- European Commission (EC) (2004) The Western Balkans in transition. Occasional papers No. 5, Directorate general for economic and financial affairs, January
- European Union (EU) (2003) Housing statistics in the European union, 2002. International centre for research and information on the public and cooperative economy. University of Liège, Liège
- Falcetti E, Sanfey T, Taci A (2003) Bridging the gaps? Private sector development, capital flows and the investment climate in south-eastern Europe. EBRD, London, Working Paper 80
- Feddes A, Dieleman F (1996) Investment in housing in ten northeast European countries, 1950–1985. *TESG* 87(1):73–79
- Fischer M (ed) (2006) Peacebuilding and civil society in Bosnia-Herzegovina. Ten years after Dayton. Lit Verlag, Münster
- Forrest R, Murie A (1988) Selling the welfare state: The privatization of public housing. Routledge, London and New York
- Forrest R, Murie A, Williams P (1990) Home ownership: Differentiation and fragmentation. Unwin Hyman, London, Boston
- Gabriel B (2007) Informal settlements in SEE—A regional support approach. Paper presented at informal settlements—Real estate markets needs related to good land administration and planning FIG commission 3 workshop, Athens, 28–31 March 2007
- Gacevic N (2007) Addressing the problem of informal settlements in montenegro. Paper presented at 5th regional Vienna declaration review meeting, stability pact for south eastern Europe, 22–23 October 2007
- Gallagher P (1982) Housing in Bulgaria. *Housing review* July August: 124–126
- Government of the Republic of Macedonia (GRM) Poverty reduction strategy paper. www.imf.org/external/NP/prsp/2000/mkd/01/111000.pdf
- Hall D (1990) Housing policy in Albania. In: Sillince J (ed) *Housing policies in Eastern Europe and the Soviet Union*. Routledge, London, pp 359–401
- Harloe M, Martens M (1983) Comparative housing research. *J Soc Policy* 13:255–277
- Harloe M (1995) *The People's Home*. Basil Blackwell, Oxford
- Harsman B (ed) (1991) *Housing markets and housing institutions: An international comparison*. Kluwer Academic Publishers, Boston
- Hayden R (2000) *Blueprints for a house divided: The constitutional logic of the Yugoslav conflicts*. University of Michigan Press, Michigan
- Hausner J, Jessop B, Neilsen K (eds) (1995) Strategic choice and path-dependency in post-socialism: Institutional dynamics in the transformation process. Edward Elgar, Aldershot Hants
- Hegedüs J (2001) Financing of housing in South East Europe. Paper presented at the SEE housing network Council of Europe meeting on social cohesion
- Hegedüs J, Tosics I (1992) Conclusion: Past tendencies and recent problems of the East European housing model. In: Turner B, Hegedüs J, Tosics I (eds) *The reform of housing in Eastern Europe and the Soviet Union*. Routledge, London, pp 318–335
- Hegedüs J, Tosics I (1996) The disintegration of the East European housing model. In: Clapham D, Hegedüs J, Kintrea K, Tosics I, Kay H (eds) *Housing privatization in Eastern Europe*. Greenwood Press, Westport
- Hegedüs J, Teller N (2003) Management of the housing stock in South Eastern Europe. Report for the joint program for social cohesion, CoE and CEDB. Paris
- Hegedüs J, Mayo S, Tosics I (1996) Transition of the housing sector in the east central European countries. *Rev Urb Reg Dev Stud* 8:101–136
- Heijden H (2002) Social rented housing in Western Europe: Developments and expectations. *Urban Stud* 39(2):327–340
- Hoffman M, Koleva M (1993) Housing policy reform in Bulgaria. *Cities* 10(3):208–223
- Howlett M, Ramesh M (1995) *Studying public policy. Policy cycles and policy subsystems*. Oxford University Press, Don Mills

- Housing and Property Directorate (HPD) (2004) Status report. HPD, Pristina
- Internal Displacement Monitoring Centre (IDMC) (2007) Global monitoring project. <http://www.internal-displacement.org/>. Accessed 26 Oct 2007
- Kaganova O (1995) Development of the market for new housing in seven Russian cities in 1993. The Urban Institute, Washington DC
- Kansky K (1976) Urbanization under socialism: The case of Czechoslovakia. Praeger, New York
- Karn V, Wolman B (1992) Comparing housing systems. Housing performance and housing policy in the United States and Britain. Clarendon Press, Oxford
- Kemeny J (1981) The myth of home-ownership. Routledge and Kegan Paul, London
- Kemeny J (1991) Housing, social theory and convergence in comparative Housing. Routledge, London
- Kemeny J (1995) From public housing to social market: Rental policy strategy in comparative perspective. Routledge, London
- Kemeny J, Lowe S (1998) Schools of comparative housing research: From convergence to divergence. *Housing Stud* 13(2):161–176
- Kleinman M (1992) Policy responses to changing housing markets: Towards a European housing policy? L.S.E. Welfare state programme discussion paper, WSP/73. London School of Economics, London
- Kleinman M, Matznetter W, Stephens M (eds) (1998) European integration and housing policy. Routledge, London and New York
- Koleva M, Dandolova I (1992) Housing reforms in Bulgaria: Myth or reality? In: Turner B, Hegedüs J, Tosics I (eds) The reform of housing in Eastern Europe and the Soviet Union. Routledge, London, pp 28–41
- Kornai J (1993) The socialist economy: The political economy of communism. Princeton University Press, Princeton
- Kornai J (2000) What the change of system from socialism to capitalism does and does not mean. *J of Economic Perspectives* 14:27–42
- Kos D (1992) A case study of conflicting housing pluralism in Yugoslavia: Informal (self-help) activities in the formal housing system. In: Turner B, Hegedüs J, Tosics I (eds) The reform of housing in Eastern Europe and the Soviet Union. Routledge, London, pp 308–318
- Kosinski L (1977) Demographic developments in Eastern Europe. Praeger, New York
- Kosovo Statistical Office (KSO) (2004) Kosovo in figures 2004. Kosovo Statistical Office, Pristina
- Leckie S (2002) Regional housing issues profile, implementing housing rights in South East Europe. UN-Habitat, Nairobi
- Lindblom C, Woodhouse EJ (1993) The policy-making process, 3rd edn. Prentice-Hall, Englewood Cliffs
- Lowe S (1992) Romania: An introduction. In: Turner B, Hegedüs J, Tosics I (eds) The reform of housing in Eastern Europe and the Soviet Union. Routledge, London, pp 218–229
- Lowe S (2004) Housing policy analysis. British housing in cultural and comparative context. Palgrave Macmillan, Houndmills
- Lujanen M (1993) How useful are housing indicators as a tool for housing policy in Europe? *Neth J Hous Built Environ* 8(1):77–84
- Lundqvist L (1986) Housing policy and equality. A comparative study of tenure conversions and their effects. Croom Helm, London
- Lundqvist L (1992) Dislodging the Welfare State. Delft University Press, Delft
- Lux M (ed) (2003) Housing policy: An end or a new beginning. Local government initiative, Open Society Institute, Budapest
- MacLennan D, Whitehead C (1996) Housing economics: An evolving agenda. *Housing Stud* 11:341–344
- MacLennan D, Gibb K (1993) Housing indicators and research for policy from the perspective of applied economics. *Neth J Hous Built Environ* 8(1):49–60
- Magnussen L (1992) Housing and housing policy in Albania. In: Turner B, Hegedüs J, Tosics I (eds) The reform of housing in Eastern Europe and the Soviet Union. Routledge, London, pp 12–22

- Malpass P, Murie A (1990) *Housing policy and practice*. Macmillan Education, London
- Malpezzi S, Mayo S (1994) A model design for a developing country housing market study. Centre for Urban Land Economics Working Paper, Wisconsin
- Mandic S (1992) Reformism in Yugoslavia: Introductory remarks. In: Turner B, Hegedüs J, Tosics I (eds) *The reform of housing in Eastern Europe and the Soviet Union*. Routledge, London, pp 296–307
- Mandic S, Clapham D (1996) The meaning of home ownership in the transition from socialism. *Urban Stud* 33(1):83–97
- Marcuse P (1996) Privatization and its discontents: Property rights in land and housing in Eastern Europe. In: Andrusz G, Harloe M, Szelenyi I (eds) *Cities after socialism: Urban and regional change and conflict in post-socialist societies*. Blackwell, London, pp 74–145
- Martens M (1988) Owner-occupied housing: A tenure in transition. In: Ball M, Harloe M, Martens M (eds). *Housing and social change in Europe and the USA*. Routledge, London, pp 87–130
- Metropolitan Research Institute (MRI) (1996) Regional housing indicators database in the transitional countries of central and Eastern Europe. Indicators programme, monitoring human settlements. Metropolitan Research Institute, Budapest
- Ministry of Capital Investment of Serbia (MCIS) (2004) The development of informal settlements in Belgrade. Paper presented at the ministerial conference on informal settlements in South Eastern Europe, 28 September to 1 October 2004. <http://www.stabilitypact.org/humi/040928-presentations/>. Accessed 16 Nov 2007.
- Ministry of Human Rights and Refugees (MHRR) (2004) On situation in the field of return of refugees from BIH, displaced persons in BIH and returnees, Sarajevo
- Ministry for Public Works, Reconstruction and Construction (2003) Report on return of displaced persons reconstruction. MPWRC, Zagreb
- Merrill S, Rabenhorst C, Butler SB (2004) An assessment of the mortgage market in Serbia. The Urban Institute for USAID, Washington DC
- Merrill S, Rabenhorst C, Sacks P (2003) Developing secondary mortgage markets in Southeast Europe: Assessment of the mortgage market in Bulgaria. The Urban Institute, Washington DC
- Morton H (1979) Housing problems and policies of Eastern Europe and the Soviet Union. *Stud Comp Comm* 12(4):300–321
- Morton H (1980) Who gets what, when and how? Housing in the Soviet Union. *Sov Stud* 32(2):235–259
- Municipality of Podgorica/HELP (2003) Legalisation and upgrading of Zagoric/Zlatica illegal settlements, feasibility study final report, October
- Organization for Security and Cooperation in Europe (OSCE) (2006) Report on Roma informal settlements in Bosnia and Herzegovina Mission to Bosnia and Herzegovina. http://www.cohre.org/view_page.php?page_id = 237. Accessed 15 Nov 2007. OSCE, Sarajevo
- Oxley M, Smith J (1995) Housing investment, macroeconomics and demographics in Europe. *Neth J Hous Built Environ* 10:187–207
- Payne G, Majale M (2004) *The urban housing manual: Making regulatory frameworks work for the poor*. Earthscan, London
- Petrovic M (2001) Post-socialist housing policy transformation in Yugoslavia and Belgrade. *Eur J Hous Pol* 1(2):211–231
- Pichler-Milanovich N (1994) The role of housing policy in the transformation process of Central-East European cities. *Urban Stud* 31(7):1097–1116
- Pichler-Milanovich N (2001) Urban housing markets in Central and Eastern Europe: Convergence, divergence or policy collapse. *Eur J Hous Pol* 1:145–187
- Priemus H (1993) A comparative view on European housing policies in the nineties. *Scand Hous Plan Res* 10(4):235–243
- Post K, Wright P (1989) *Socialism and underdevelopment*. Routledge, London
- Rabenhorst C (1997) Assessment of mortgage finance and privatized housing management in the federation of Bosnia-Herzegovina. Prepared for USAID Privatization Office, Sarajevo

- Rabenhorst C (2000) The real estate market in Bosnia-Herzegovina: Current status and recommendations for reform. (Prepared for the office of the high representative, Sarajevo). The Urban Institute, Washington DC
- Ravicz M (1992) Alternative mortgage instruments for Bulgaria: A compilation of eight studies. The Urban Institute, Washington DC
- Registra, Analystas and Imantra (RAI) (2004a) Housing finance in Serbia and Montenegro. Draft report prepared for IFC, Washington DC
- Registra, Analystas and Imantra (RAI) (2004b) Housing finance in Kosovo. Draft report prepared for IFC, Washington DC
- Registra, Analystas and Imantra (RAI) (2005a) Housing finance in Macedonia. Draft report prepared for IFC, Washington DC
- Registra, Analystas and Imantra (RAI) (2005b) Housing finance in Croatia. Draft report prepared for IFC, Washington DC
- Reinermann D (2003) Economic developments and poverty reduction processes in South-East Europe. World Bank Country Office, Sarajevo
- Renaud B (1995) The real estate economy and the design of Russian housing reforms. *Urban Stud* 32(8):1247–1264
- Renaud B (1996) Housing finance in transition economies: The early years in Eastern Europe and the former Soviet Union. World Bank Policy Research Working Paper 1565, Washington DC
- Republic of Croatia Central Bureau of Statistics (RCCBS) (2003) Census of the population and dwellings, summary results. Republic of Croatia Central Bureau of Statistics, Zagreb
- Republic of Macedonia State Institute for Statistics (2004) Census of population, households and dwellings in the Republic of Macedonia 2002, book III. State Institute for Statistics, Skopje
- Rothenberg J et al (1991) The maze of urban housing markets: Theory, evidence and policy. University of Chicago Press, Chicago
- Schmidt S (1989) Convergence theory, labour movements, and corporatism: The case of housing. *Scand Hous Plan Res* 6:83–101
- Schneider F (2002) The value added of underground activities: Size and measurement of the shadow economies of 110 countries all over the world. Johannes Kepler University of Linz, Mimeo
- Seferagic D (1986) Housing perspectives in Yugoslavia. Paper for the conference on housing between states and markets, Dubrovnik, 16–19 September 1988
- Serbia and Montenegro Federal Statistical Office (SMFSO) (2003) Census of population, households and dwellings, 2002. (First Results by Municipalities of the Republic of Serbia). Serbia and Montenegro Federal Statistical Office, Belgrade
- Schnytzer A (1982) Stalinist economic strategy in practice: The case of Albania. Oxford University Press, London
- Siksio O (1994) The social construction of housing systems—On institutions, actors and actions in changing socio-political contexts. Transitional housing systems: East-West dialogue on the new roles of actors in changing housing policies. CIB, Bauhaus Dessau, pp 300–322
- Silber L, Little A (1997) Yugoslavia: Death of a nation. Penguin Books, London
- Sillince J (1990a) Housing policy in Eastern Europe and the Soviet Union. In: Sillince J (ed) Housing policies in Eastern Europe and the Soviet Union. Routledge, London, pp 6–58
- Sillince J (ed) (1990b) Housing policies in Eastern Europe and the Soviet Union. Routledge, London
- Slaev A (2007) Bulgarian policies towards the Roma housing problem and Roma squatter settlements. *Eur J Hous Pol* 7(1):63–84
- Sjoberg O (1992) Albania: An introduction. In: Turner B, Hegedüs J, Tosics I (eds) The reform of housing in Eastern Europe and the Soviet Union. Routledge, London, pp 6–11
- Soaita A (2007) The new housing developments in Romania: Challenges and resident involvement. Paper presented at the European network for housing research conference, Rotterdam, 21–25 June 2007
- Somerville P (1994) On Explanations of Housing Policy. *Scand Housing and Planning Research* (11):211–230

- Stability Pact RRI/MAI (2002) Regional initiative to manage and stabilize population movements in South Eastern Europe
- Stephens M (2002) International models of housing finance: Housing finance in the western and transition economies. In: Yasui T (ed) *Housing finance in transition economies*. OECD, Paris, pp 175–182
- Struyk R (1996) The long road to the market. In: Struyk R (ed) *Economic restructuring of the former Soviet Bloc. The case of housing*. The Urban Institute Press, Washington DC, 1–59
- Struyk R (ed) (2000) *Homeownership and housing finance policy in the former Soviet Bloc: Costly populism*. Urban Institute Press, Washington DC
- Szelenyi I (1983) *Urban inequalities under state socialism*. Oxford University Press, Oxford
- Telgarsky J, Struyk R (1991) *Towards a market-oriented housing sector in Eastern Europe: Developments in Bulgaria, Czechoslovakia, Hungary, Poland, Romania, Yugoslavia*. The Urban Institute Press, Washington DC
- Topham S (1990) *Housing policy in Yugoslavia*. In: Sillince J (ed) *Housing policies in Eastern Europe and the Soviet Union*. Routledge, London, pp 402–439
- Tsenkova S (1994) *From planning to markets. Bulgarian housing policy reform*. (Working paper series, Centre of Urban and Housing Research). University of Orebro, Orebro
- Tsenkova S (1997) *Private housebuilding in transition economies*. In: Traerup T, Smets A (eds) *Housing policies and housing markets*. SBI, Horsholm
- Tsenkova S (2000) *Housing in transition and the transition in housing: The experience of Central and Eastern Europe*. Kapital Reklama, Sofia
- Tsenkova S (2002) *A concept for a housing monitoring system in Latvia*. Ministry of environmental protection and regional development/CIDA, Riga
- Tsenkova S (2003) *Housing policy matters: The reform path in Central and Eastern Europe: Policy convergence?* In: Tsenkova S, Lowe S (eds) *Housing change in Central and Eastern Europe: Integration or fragmentation*. Ashgate Publishing Limited, Aldershot, pp 193–205
- Tsenkova S (2004a) *Council of Europe SEE housing expert network survey*, Strasbourg, December 2004
- Tsenkova S (2004b) *Urban sustainability in the ECE region: Progress and challenges*. Economic Commission for Europe, Geneva
- Tsenkova S (2005) *Trends and progress in housing reforms in South Eastern Europe*, Council of Europe Bank, Paris
- Tsenkova S (2008) *The challenge of informal settlements in the ECE region: A search for adequate policy responses*. UNECE, Geneva
- Tsenkova S, Dogotaru S (2006) *City development strategy for the municipality of Chisinau: Housing concept paper*. UN-HABITAT, Geneva
- Tsenkova S, Turner B (2004) *The future of social housing in Eastern Europe: Reforms in Latvia and Ukraine*. *Eur J Hous Pol* 4(2):133–149
- Tsenkova S, Georgiev G, Motev S, Dimitrov D (1996) *Bulgaria*. In: Clapham D, Hegedüs J, Kintrea K, Tosic I, Kay H (eds) *Housing privatization in Eastern Europe*. Greenwood Press, Westport, 97–119
- Turner B (1992) *Housing reform in Eastern Europe: An introduction*. In: Turner B, Hegedüs J, Tosics I (eds) *The reform of housing in Eastern Europe and the Soviet Union*. Routledge, London, 1–6
- Turner B, Hegedüs J, Tosics I (eds) (1992) *The reform of housing in Eastern Europe and the Soviet Union*. Routledge, London, 52–70
- Turnock D (1989) *The human geography of Eastern Europe*. Routledge, London
- Turnock D (1990) *Housing policy in Romania*. In: Sillince J (ed) *Housing policies in Eastern Europe and the Soviet Union*. Routledge, London, pp 135–169
- United Nations Centre for Human Settlements (UN-HABITAT) (2002) *The state of the world's cities 2001*. UN-Habitat, Nairobi
- United Nations Centre for Human Settlements (UN-HABITAT) (2003) *Global report on human settlements 2003: The challenge of slums*. Earthscan, London

- United Nations Centre for Human Settlements (UN-HABITAT) (2005) *Global Report on Human Settlements 2005*. Earthscan, London
- United Nations Centre for Human Settlements (UN-HABITAT) (2007) *State of the World Cities Report 2006/07*. Earthscan, London
- United Nations Centre for Human Settlements and the World Bank (UNCHS-WB) (1993) *The housing indicators program I-IV*. The World Bank, Washington DC
- United Nations Development Program (UNDP) (2003) *Human development report 2002*. UNDP, New York
- United Nations High Commissioner for Refugees (UNHCR) (2004) *Closing the circle: from emergency humanitarian relief to sustainable returns in South Eastern Europe*. UNHCR, Sarajevo
- United Nations High Commissioner for Refugees (UNHCR) (2006) *Global Refugee Trends 2005*. Field Information and Coordination Support Section Division of Operational Services, UNHCR, Geneva
- United Nations High Commissioner for Refugees Sub-Office Podgorica (2004) *Overview of the situation on refugees and IDPs in Montenegro*. UNHCR, Podgorica
- United Nations Human Settlements Programs (UNHSP) (2001) *Building a sustainable future. Rapid survey of the housing sector in the Republic of Serbia*. United Nation Centre for Human Settlements, Republic of Serbia
- United Nations Human Settlements Programs (UNHSP) (2006) *Four strategic themes for the housing policy in Serbia. Settlement and integration of refugee programme in Serbia (SIRP)*, Belgrade
- Urban Institute (1995) *Progress in privatization: Transforming Eastern Europe's social housing*. Office of Housing and Urban Programs (USAID), Washington DC
- van Vliet W (ed) (1987) *Housing markets and policies under fiscal austerity*. Greenwood Press, Westport
- van Vliet W (ed) (1990) *International handbook of housing policies and practices*. Greenwood, New York
- Vienna Declaration (2004) Annex B: Vienna declaration. In: Ministerial conference on informal settlements in South Eastern Europe, Vienna, 28 September to 01 October 2004. <http://www.stabilitypact.org/humi/041001-conference.html>. Accessed 25 Oct 2007
- Vienna Institute for Comparative Economic Studies (1986) *COMECON data 1985*. Macmillan, London
- Vucksanovic Z (2007) *Solutions to informal settlements*. Paper presented at 5th regional Vienna declaration review meeting, Stability Pact for South Eastern Europe, 23–24 November 2007
- Wegelin E (2003) *Refugee-related housing issues in selected SEE countries*. Paper presented at CEB/WB housing conference, Paris, April 2003
- Woodward S (1995) *Balkan tragedy: Chaos and dissolution after the Cold War*. The Brookings Institution, Washington DC
- World Bank (1993) *Housing: Enabling Markets to Work*. The World Bank, Washington DC
- World Bank (1995) *Russia – Housing Reform and Privatisation: Strategy and Transition Issues (I)*. The World Bank, Washington DC
- World Bank (2000) *Cities in transition: The World Bank urban and local government strategy*. The International Bank for Reconstruction and Development, The World Bank, Washington DC
- World Bank (2001) *Upgrading Urban Communities: A Resource Framework*. The World Bank, Washington DC
- World Bank (2002) *Transition—The first ten years: Analysis and lessons for Eastern Europe and the former Soviet Union, Europe and Central Asia regional department (ECA)*. The World Bank, Washington DC
- World Bank (2003) *World development report*. The International Bank for Reconstruction and Development, The World Bank, Washington DC
- World Bank (2005) *Meeting the millennium development goals in Europe and Central Asia. Background Reports*. The World Bank, Washington DC

- World Bank (2007) World Bank responses to the problem of informal development: Current projects and future action. Paper presented at informal settlements—Real estate markets needs related to good land administration and planning FIG commission 3 workshop, Athens, Greece, 28–31, March 2007
- World Bank Country Office Sarajevo (2003) Economic developments and poverty reduction processes in South-East Europe. World Bank Country Office, Sarajevo
- Yannis A (2004) The UN as government in Kosovo. *Global Governance* 10(1):67–81
- Zanga L (1990) Albania moving along, but slowly. *Report on Eastern Europe* 1(1):1–4
- Zülsdorf A, Schmidtbaue A, Herbst V (2004) Cadastre and property registration system in the Western Balkan Countries. GFA Terra Systems GmbH, Hamburg

Index

A

- Absence of well-developed system, 137
- Affordable housing, 5, 7, 16, 21, 186, 211.
 - See also* Housing costs and affordability; Informal housing
 - fiscal and financial instruments, 91–93, 110, 111
 - house price-to-income ratios, 137
 - lack of housing finance, 159
 - owner-occupied housing, 39, 43, 226–228
 - public rental housing, 225
 - in relation to social class, 10
 - shortage of, 219
 - in urban areas, 139
- Agenda for Regional Action, 101
- Albania, 2, 45, 46
 - appraisal process, 218
 - association of homeowners, 141
 - average house price-to-income ratio, 137
 - banks and banking, 160
 - civil code, 82, 85
 - collateral law, 85
 - condominium legislation, 142, 213
 - construction and planning registration, 88
 - construction costs, 178
 - credit-to-GDP ratio, 162
 - democratic elections, 51
 - ex-political prisoners and war invalids, 93
 - high vacancy rates, 116
 - homeownership, 32, 210
 - household size, 115, 221
 - housing
 - action plan, 68
 - allocation, 29
 - availability, 113, 221
 - choices, 226
 - crisis, 30
 - policy, 30, 73
 - quality, 222
 - reforms, 68, 69, 211
 - shortage, 34
 - subsidies, 92, 100, 110
 - surplus, 115, 221
 - illegal subdivisions, 194
 - informal housing, 175, 176, 186, 188–190, 199, 202
 - land ownership, 43
 - Law on Programs for Housing the Urban Inhabitants, 100
 - Law on Registration of Immovable Property, 83
 - Law on Social Housing, 92
 - local government, 75
 - maintenance of housing stock, 141
 - Ministry of Territorial Adjustment and Tourism, 74
 - mortgage legislation, 85
 - National Housing Agencies, 73, 74
 - new housing construction, 33, 37, 173, 182, 183
 - privatisation, 66, 86
 - property registration, 83
 - property rights legislation, 82
 - publicly owned social housing, 42, 99, 225
 - public/private cooperation, 173
 - pyramid schemes, 51, 160
 - regulatory institutions, lack of, 214
 - rent setting, 153
 - restitution, 152
 - share of housing investment, 31
 - socialist model of development in, 25
 - state provision of housing, 215
 - urban voluntary programme, 38
 - water and sewerage facilities, 222
 - water and sewer systems, 222
- ALUIZNI, 202

- Apartment ownership and management, 87.
 See also Condominium legislation
- Appraisal process, 170
- Ashkaelia communities, 101
- Asset management, 139, 149, 151, 153, 154
 - deferred maintenance, 146
 - technical challenges, 145–148

- B**
- BACB (bank), 164
- Banking reforms, 160–162
- Banking system, 77, 79
- Belgrade, 22, 141, 153
 - homeownership, 42
 - illegal three-storey houses, 130
 - informal housing and settlements, 199, 200, 225, 226
 - large builders, 172
 - luxury gated communities, 127
 - market for flats, 136
 - population, 61
 - sanitation, 123
- BiH
 - building management, 142
 - construction and planning, legislation, 88
 - credit bureaus, 170
 - Decree Law on Real Property Transfer, 89
 - housing privatisation, moratorium, 152
 - implicit housing subsidies, 110
 - Law on Pledge of Movable Property, 85
 - Law on Property, 82
 - Law on the Housing Fund, 87
 - mortgage legislation, 85
 - mortgage markets, 79
 - post-war reconstruction, 73
 - property registration, 75, 85
 - property rights legislation, 82
 - property taxes, 89
 - public/social housing, 97
 - refugee related housing issues, 105
 - sale of public housing, 66
 - war reconstruction efforts, 91, 92, 102
 - water and sewer, 222
- Bosnia and Herzegovina, 2, 20, 76
 - banks, 160
 - CED housing reconstion problem, 105
 - currency boards, 3
 - demographics, 61
 - economic transmission, 53
 - house price-to-income ratio, 137
 - housing
 - choices, 226
 - management, 142
 - privatisation, 87
 - reforms, 70, 210
 - illegal property subdivisions, 193
 - inadequate legal framework, 214
 - informal settlements, 199, 204
 - investment, 55
 - Law on Land Registry, 84
 - Law on Privatisation of Apartments with Existing Tenure Rights, 87
 - local governments, 76
 - mortgage lending, 166, 217
 - mortgage market, 162, 163, 169
 - privatisation of housing, 123
 - proper registration, 84
 - Property Law Implementation Program, 102
 - publicly owned social housing, 225
 - Reconstruction of Returnee Housing, 102
 - refugee related housing issues, 101, 102, 104
 - regulatory institutions, lack of, 214
 - sewerage infrastructure, 117
 - small and residual sector, 123
 - unemployment, 57
 - urbanisation, 61
 - war damage, 224
 - war reconstruction efforts, 215
- Bucharest, 24, 81, 95, 172
 - population, 61
 - social housing, 98, 99
 - urban renewal, 37
- Building industry, 77. *See also* New housing construction; private building industry
 - construction costs, 44, 178
 - construction methods and technology, 145, 177
 - diversity, 77
 - high rise construction technology, 145
 - HOAs, 142
 - housing allocation, 154
 - housing construction co-operatives, 40, 41
 - public rental housing, 153
 - rent setting, 153
 - restitution, 152
 - state construction enterprises, 40, 41, 73, 77, 81, 95, 152, 172
 - state owned construction companies, 79
- Bulgaria, 2, 34
 - affordable housing, 91
 - banks and banking, 79, 161, 166
 - building cooperatives, 39
 - cadastre system, 75, 83
 - Civil Procedure Code, 85

- construction sector privatisation, 73, 171
 - consumer lending, 217
 - credit bureaus, 170
 - currency boards, 160
 - economic transition, 53
 - high vacancy rates, 116
 - homeownership, 33, 42–43
 - household size, 115, 221
 - house prices, 128, 185
 - housing
 - allocation, 29
 - availability, 221
 - availability in South Eastern Europe, 113
 - policy, 74, 215
 - privatization, 32, 66
 - quality, 117, 184, 222, 224
 - reconstruction, 97, 105
 - reforms, 68
 - shortages, 32
 - subsidies, 93, 96, 100, 215
 - illegal property subdivisions, 194
 - informal settlements, 202
 - land costs, 178
 - Law on Obligations and Contracts Law, 85
 - legislation on construction and planning, 88
 - local government, 73, 75, 214
 - market intermediaries, 80, 214
 - Ministry of Regional Development and Public Works, 74
 - mortgage foreclosure, 85
 - mortgage lending, 217
 - mortgage market, 79, 218
 - multi-family apartment blocks, 36
 - multi-family panel apartment, 36
 - National Housing Strategy, 97
 - new housing construction, 97, 172, 173, 218, 219, 221
 - ‘old savers,’ 93, 96, 215
 - people per room, 31
 - political transition, 51
 - population, 60
 - primary market support functions, 218
 - private housing industry, 171, 172, 177, 214, 219
 - privately owned land, 43
 - Property Law, 82, 85
 - Property Registration Law, 83
 - publicly owned social housing, 66, 73, 214, 225
 - public/private cooperation, 173
 - second homes, 115
 - self-help housing, 30
 - share of housing investment, 31
 - single family homes, 175
 - structure and type of
 - condominiums, 127
 - vacancy rates, 222
- C
- Cadastre and property registration, 75, 213
 - Ceausescu, Nicolai, 38, 52
 - Central banks, 161
 - Central Europe, 7
 - Central government institutions in housing, 73, 97. *See also* State provision of housing
 - Central heating, 36
 - Chisinau, 20, 81, 140, 148, 153, 156, 181
 - luxury gated communities, 127
 - single family homes, 136
 - Collectivisation, 26
 - Commercial banks, 79, 160, 161, 163, 164, 217
 - Commissariat for Refugees, 107
 - Communist party, 26
 - Condominium legislation, 82, 87, 213
 - Condominiums, 80, 127, 174
 - Consumer lending, 160, 217
 - Convergence–divergence theories, 9, 69
 - Cost recovery, 32, 45, 101, 110, 140, 151, 153, 158, 193, 216
 - Council for Mutual Economic Assistance, 27
 - Council of Europe Development Bank, 4, 20, 98, 99, 105, 123, 205, 215
 - Council of Europe Housing Network for South East Europe, 19, 20
 - Credit information bureaus, 170, 218
 - Croatia, 2
 - cadastre system, 75
 - centralised heating, 118
 - commercial banks, 79, 161
 - condominiums, 127
 - construction costs, 178, 179
 - construction sector,
 - privatisation, 78
 - consumer lending, 217
 - credit-to-GDP ratio, 162
 - cultural diversity, 61
 - currency boards, 160
 - demographics, 61
 - Domenia credit, 164
 - economic transmission, 53
 - government support for housing, 93, 95, 97, 110, 216
 - high-rise panel structures, 127

- housing
 - choices, 227
 - finance, 218
 - policy, 73, 215
 - quality, 224
 - reforms, 68, 69
 - saving banks, 164
- illegal property subdivisions, 194
- income, per capita, 54
- independence, 52
- informal settlements, 200, 202
- land costs, 178
- Land Registration Act, 83
- Law on Building Society Savings and State Subsidies for Building Societies, 85
- Law on Ownership, 85
- Law on Possession and Other Real Property Rights, 82
- Law on State Subsidised Housing Construction, 95
- maintenance of housing stock, 105, 140
- Ministry of Public Works, Reconstruction and Construction, 74
- mortgage legislation, 82, 84, 213
- mortgage lending, 165–167
- mortgage market, 218
- National Housing Agency, 73
- new housing, 173, 221
- post-war reconstruction, 73
- private housing industry, 170–172, 214, 219
- private rental housing, 126
- property registration, 83, 85
- property rights legislation, 83
- property transfer tax, 89
- public/private cooperation, 173
- public/social housing, 66, 98, 123, 212
- refugee related housing issues, 101, 104, 105
- second homes, 115
- single family homes, 136, 175
- war-damaged housing, 121, 224
- war reconstruction efforts, 91, 92, 215
- Croatia commercial banks, 79, 161
- Czechoslovakia, 34

- D
- Dayton Peace Agreement (DPA), 52
- Decentralisation, 20, 46, 75, 76
- Demand-based housing assistance, 92, 95, 215, 216, 230. *See also* Subsidies
- Deregulation, 5, 67, 75
- Developers, 77

- Devolution, 68, 212
- Diversity, 2, 8, 11, 13, 20, 61, 77
- Dubrovnik, 81
- Dwellings size, 36

- E
- East European housing model, 7, 28
- Economic efficiency, 16, 22, 179, 181, 182, 210, 229
- Economic transition, 195
- Egyptian communities, 101
- Employment, 26. *See also* Unemployment
- Eno credit, 164
- Environmental issues, 76, 199, 200
- Ethnic conflict, 76
- Europe, 2, 3, 35, 36, 100, 101, 110
- European Agency for Reconstruction, 205
- European Union, 55, 75, 161–163, 162, 163, 165
- Express bank, 164

- F
- Federal Republic of Yugoslavia, 53
- Financial instruments, 2, 15, 91, 93
- Fiscal instruments, 2, 15, 91, 93, 226
- Fiscal policies, 15
- Five-year plans, 26, 38
- Former Yugoslav Republic of Macedonia, 2, 20, 55, 57
 - average house price-to-income ratio, 137
 - cadastre system, 75, 85
 - CED housing reconstruction project, 105
 - commercial banks, 161
 - credit-to-GDP ratio, 162
 - decentralisation, 76
 - economic transmission, 53
 - funding for public houses, 154
 - homeownership, 42
 - housing
 - allocation, 150, 152
 - availability, 113
 - choices, 228
 - costs, 133
 - investment, 128
 - law, 86
 - policy, 73, 215
 - privatisation, 86
 - quality, 222
 - reforms, 63, 68
 - size, 177
 - stock maintenance, 113

- informal housing, 188, 190
 - Law of the Sale of Socially-Owned Housing, 86
 - Law on Housing, 82
 - Law on Ownership and Other Real Rights, 82
 - Law on Property Taxes, 89
 - Law on Survey, Cadastre and the Real Estate Rights Registry, 85
 - legal framework inadequacy, 214
 - Legislation on construction and planning, 88
 - Ministry of Transport and Communication, 74
 - mortgage lending, 165–167, 217
 - mortgage market, 79
 - new housing construction, 120, 128, 173
 - political transition, 51
 - private building firms, 78, 172, 214
 - private rental housing, 126
 - privatisation of public housing assets, 123
 - property registration, 75, 84
 - property rights legislation, 82
 - property taxes, 89
 - Public Enterprise for Housing, 75, 94
 - publicly owned social housing, 212, 225
 - public owned social housing, 86, 98, 99
 - refugee-related housing programs, 106
 - state subsidies, 92, 110
 - war reconstruction efforts, 93
 - Welfare Protection Law, 154
- G
- Gated communities, 127
 - GDP, 54–57, 114, 128
 - foreign investment, 57
 - growth, 55
 - informal economy share, 57
 - private sector share, 55
 - GNI, per capita, 54
 - Good governance, 201
 - Gorica settlement, 204
 - Government support for housing, 21, 91, 93–96, 98–102, 104–106, 105, 106, 110, 111, 205. *See also* Housing provision, subsidies
 - demand-based housing assistance, 92, 95, 212, 215, 216, 230
 - direct provision of housing, 21, 92, 93
 - direct public lending to housing sector, 92
 - financial support, 154, 156, 212
 - low income households, 100, 215, 230
 - unfinished public housing projects, 93
 - Green field housing estates, 37
- H
- Homelessness, 51, 93, 222
 - 'hidden homelessness,' 29, 32
 - Homeowners' Associations (HOAs)/Condominiums, 80, 142, 157, 213
 - Homeownership, 32, 43, 91, 93, 95
 - affordability, 44, 137, 226. *See also* Affordable housing
 - first time buyers, 95
 - housing policies, 38
 - inequality, 210
 - under socialism, 2, 33, 39, 210
 - state encouragement of, 40. *See also* Government support for housing; Subsidies
 - through privatisation, 72, 73, 210
 - transformation to demand-driven, 218
 - Homeowners' rights, 43
 - Household surplus, 221
 - House prices, 134
 - House prices/rents, differentiation, 12, 14, 21, 134, 146, 226
 - Housing allocation, 9, 29, 33, 154
 - market, 11
 - Housing allowances, 100, 158. *See also* Subsidies
 - Housing and Property Claims Commission (HPCC), 108
 - Housing and Property Directorate (HPD), 108, 109
 - Housing as constitutional right, 43
 - Housing availability, 113, 221
 - Housing choices, 11, 18, 36, 128, 211, 226
 - consumer preferences, 218
 - myth, 185
 - new households, 226, 227
 - refugees, 226
 - Housing Construction Loan Program of the European Fund, 163
 - Housing cooperatives, 30, 31
 - Housing cost and affordability
 - expenditure on utilities, 133
 - Housing costs and affordability, 44, 46. *See also* Affordable housing
 - consumer choice myth, 185
 - percentage of income, 44
 - private investment, 44
 - under socialism, 45
 - Housing demand in the capital, 134
 - Housing distribution, assessment, 113

- Housing finance, 5, 7, 15, 16, 22
 absence of well-developed system, 217
 banking reforms, 160, 161
 bridge financing, 166
 housing investment, 39
 housing loans, 44
 housing savings banks, 164
 infill sites, 180
 institutions, 79
 primary mortgage market, 162, 163
 sources of funding, 164, 165
- Housing, heterogeneity of, 10
- Housing, importance in national economy, 228
- Housing inequality, 41, 210. *See also* Income inequality
- Housing location
 flats, 136
 inner-city housing, 133, 134, 184
 new housing, 184
 peripheral housing estates, 36, 134
 peri-urban areas, 190–192
 prestigious neighbourhoods, 134
- Housing management, 12, 15, 21, 72, 80, 83, 212
 condominiums legislation, 142, 146
 evolving legal framework, 142, 145
 Homeowners' Association (HOAs)/
 Condominiums, 80, 142, 213
 low fee-no service, 141
 management companies, lack of, 142
 new system, 141
 poor performance, 158
 restitution and, 139
- Housing management table, 143
- Housing markets, 2, 4
 demand and consumer preferences, 184
 differentiation of house prices/rents, 134, 146, 226
 emerging, 77
 financially attraction, 137
 house price/rents, differentiation, 134, 137, 146
 inefficiency and immaturity, 214
 informal sector, 137
 intermediaries, 80
 knowledge of, 184
 legal frameworks for, 210
 matches, 137
 mismatches, 115, 138
 policies, 2, 16
 regional differences, 185
 single family homes, 136
 upper end, 131
- Housing outcomes, 33
- Housing policy, 9, 10, 209
 abandonment, 210
 analysis, 6, 12
 arenas, 11
 collapse, 7, 9
 diffusion, 6
 future housing policy intervention, 229
 of homeownership, 39
 importance of, 211
 instruments, 12, 15, 68, 69, 95
 intervention, 7, 21
 learning, 6
 new market reality, 210
 outcomes, 14
 Western Europe, 7
- 'Housing policy matters' (premise), 3, 211
- Housing privatisation legislation, 86, 87
- Housing provision, 12, 28, 37–39, 41.
See also New housing provision
 commercialisation, 20
 consumer preferences and, 31
 demand-driven, 184
 diversification, 219
 economic efficiency, 220
 housing construction cooperatives, 41
 'market sector,' state-controlled system, 29
 private sector, 38, 77, 79
 public, 40, 212, 215, 216
 public sector institutions, 73–77
 self-help, 39
 state construction enterprises, 41
 state monopoly, 29
 urban-rural divide, 38
- Housing provision (private/public), 78
- Housing quality, 10, 12, 211, 222
 access to safe drinking water and
 sanitation, 117, 138, 222
 age of house and, 222
 area per person, 35
 deterioration of existing housing, 117
 improvement of, 15, 17, 21
 Urban vs. Rural, 117
 war damage, 31, 115, 121, 146, 195, 224
- Housing reforms, 2, 14, 21
 compulsory policy instruments, 68
 construction enterprises privatisation, 67
 deregulation, 67
 devolution, 68
 divergence, 8, 229
 'enabling' strategies, 4, 5, 69
 financial reforms, 71
 first phase, 65–67
 greater role of market, 210, 212
 institutional and regulatory vacuum, 210

- institutional reforms, 72, 73
 - legal and fiscal reforms, 71
 - legal framework, 81–89
 - less investment in social housing, 68
 - major challenges, 72
 - mixed policy instruments, 69, 212
 - new condition, housing management, 141
 - progress in, 70–72
 - public housing, privatisation, 66, 67
 - second phase, 68, 69
 - subsidies restructuring, 67
 - 'trial and error,' 23, 68, 211
 - trial and errorÆ, 23, 68, 211
 - voluntary policy instruments, 69
 - Housing savings banks, 164
 - Housing shortages, 29, 30, 32, 34, 39, 115, 222
 - Housing stock, 113
 - decline in maintenance, 80
 - deterioration, 226
 - lacking services (water heating), 145
 - Housing Strategy (Bulgaria, 2004), 68
 - Housing Strategy (Moldova, 1998), 68
 - Housing subsidies, direct, 154
 - Housing supply, 10, 13, 14, 31, 113, 116, 221, 229
 - people per room, 31
 - Housing system, 12
 - legacy of old system, 140
 - market-based, 2, 7, 13
 - Housing system performance, 2, 9, 10, 16–20, 128, 130, 132–134, 137, 138, 221
 - Housing systems
 - market-based, 186, 205, 210, 220
 - path dependency, 209
 - Housing systems/housing policies
 - relationship, 9
 - Hungary, 34
 - Hypo Alpe-Adria bank, 163
- I
- Illegal construction, 88. *See also* Informal housing
 - Illegal property subdivisions, 192, 194
 - self-help methods, 194
 - transformed into suburbs, 193
 - Implicit housing subsidies, 216
 - Inclusive capacity building, 201
 - Income inequality, 58, 132
 - Income, per capita, 54
 - Industrialisation, 26
 - Industrial privatisation, 170
 - Inflation, 54, 55, 137, 159
 - Informal economy, 57, 63, 160, 167, 218
 - Informal housing, 22, 173, 175, 176, 186, 188–190, 194, 195, 199, 202, 213, 219, 225, 230
 - affluent consumers of, 207
 - coastal areas, 200
 - definitions, 187
 - diverse history and evolution, 189
 - economic challenges, 196–198
 - environmental hazards, 199, 200
 - falsely equated with slums, 189
 - growing acceptance, 196
 - illegal subdivisions, 192, 194
 - infrastructure deficits, 189, 200
 - legalisation of, 202
 - location and size, 194
 - policy solutions, 201–203, 205
 - private housing industry, 207
 - as a problem and a solution, 205, 207, 220
 - rapid growth, 220
 - regularization and upgrading, 203, 204
 - resettlement of, 203, 205
 - social challenges, 198
 - squatter settlements, 189–192
 - vulnerability of tenants, 188, 191, 192
 - Infrastructure deficits, 123
 - Inner-city housing, 134, 138, 194
 - Institute of Urbanism, 123
 - Institutional frameworks, 2, 212
 - Institutionalization of planning systems, 26
 - Institutional reforms, 62, 72, 73, 213
 - Interest rate support, 95
 - International lending institutions, 164
- K
- Komercijalna bank, 163
 - Kosovo/UNMIK, 35
 - commercial banks, 161
 - conflict, 51, 52, 58, 59, 108
 - economic transition, 53
 - GDP per capita, 55
 - homeownership, 42
 - household size, 115, 221
 - housing market mismatches, 137
 - housing policy, 74
 - housing reforms, 210
 - inadequate legal framework, 214
 - informal housing construction, 128
 - local government, 76
 - Ministry of Environment and Planning, 74
 - new social housing program (pilot projects), 155
 - refugee related housing, 100, 108

- Social Housing Guidelines, 154
- unemployment, 57
- war-damaged housing, 223
- war reconstruction efforts, 93, 215
- Kosovo/UNMIK conflict, 51, 52, 58, 59, 108

- L
- Labour productivity, 27
- Land
 - barter, 182
 - books, 75, 83
 - cadastre, 75
 - for construction, 89
 - costs, 178
 - lack of serviced land, 72, 175
 - privately owned land, 43
 - and real estate registration, 203
 - serviced land, lack of, 72, 175
 - socially owned, 43
- Landowners, 77
- Law on Privatisation of Socially Owned Apartments, 142
- Legacy of socialist housing model, 13, 28, 29
- Legal framework for housing, 212
 - reforms of, 81–83, 85–89
 - schemes, 71
- Local governments, 75, 76. *See also*
 - Devolution
 - control of public service companies, 77
 - environment protection, 76
 - funding difficulties, 76
 - grants to, 98
 - responsibility for social housing, 73, 76, 150, 212, 214

- M
- Macedonia, housing quality, 224
- Maintenance practice, 72, 79, 81. *See also*
 - Housing quality
 - day to day asset management, 156
 - lack of funds, 156
 - transfer of management to homeowners, 156
- Marginalisation, weaker groups, 149
- Market
 - intermediaries, 71, 212, 214
 - liberalisation and de-regulation, 53, 67
 - outcomes, 12
 - solutions, 106
- Market allocation, 72, 73, 205
- Market-based housing systems, 2, 7
 - affordable housing, lack of, 187, 205, 219
 - building on socialist legacy, 210
 - housing demand, 13
 - potential for social efficiency, 186, 220
- Market-based institutions, evolution of, 63
- Means-tested income support, 93
- Middle-income households
 - market outcomes, 14
 - state support, 216
 - subsidised owner-occupied housing, 93
- Milosevi's, Slobodan, 53
- Moldova, 2, 20, 45, 147
 - building cooperatives, 39
 - building management, 144
 - cadastre system, 75, 83
 - central heating, 117
 - construction sector, privatisation, 72, 171, 172
 - funding for public housing, 154, 156
 - high rise construction technology, 158
 - homeowners' associations, 140, 142
 - homeownership, 32
 - housing
 - allocation, 29
 - assistance to low income households, 100, 215
 - choices, 227
 - policy, 29
 - quality, 222
 - reforms, 68, 212
 - size, 114, 177
 - subsidies, 110
- Housing Act, 83
- housing construction, state land use, 89
- land costs, 178
- Law on Real Estate Cadastre, 83
- local government, 73, 76, 214
- MAGIC, builder, 181
- means-tested income support, 93
- mortgage legislation, 85
- mortgage lending, 166
- mortgage markets, 163
- multi-family panel apartment blocks, 120
- National Housing Agency, 73, 74
- new housing, 29, 128, 173, 221
- political transition, 51
- population, 55
- prefabricated apartment buildings, 36
- property registration, 75, 83
- property rights legislation, 83
- property taxes, 89
- public housing, 42, 66, 73, 124, 127, 152, 153, 155, 214
- public/private cooperation, 173
- quality of housing, 34

- serviced land, 131
- single-family homes, 177
- state provision of housing, 215
- tenant rights, 43
- vacancy rates, 116
- water and sewer services, 117, 222
- Montenegro, 2, 53, 188
 - affordable housing, 93
 - average house price-to-income, 137
 - building management, 144
 - construction and planning, legislation, 88
 - economic transition, 53
 - homeowners' association, 140
 - housing
 - choices, 228
 - privatisation, 152
 - quality, 224
 - reforms, 210
 - for refugees and IDPs, 21, 205
 - surplus, 221
 - housing privatisation, legislation, 86
 - illegal property subdivisions, 194
 - informal housing, 14, 18, 176, 199, 200, 202
 - Law on Floor Property, 89
 - local government, 76
 - mortgage legislation, 82, 85, 213
 - private housebuilding, 172
 - public housing sale, 66
 - refugee related housing, 100
 - state provision of housing, 215
 - use of state land for housing
 - construction, 89
 - war reconstruction efforts, 93
- Mortgage foreclosure, 71, 85, 160, 168, 170, 217–219, 218, 219
- Mortgage insurance, 164
- Mortgage legislation, 82, 85, 213
- Mortgage lending, 9, 71, 165–167, 217. *See also* Housing reforms
 - affordability constraints, 169
 - bridge financing, 166
 - collateralised, 166, 168, 217
 - commercial banks, 164
 - conservative approach, 168
 - guarantors, 166, 167
 - interest rate spread, 168
 - legal and administrative problems, 160, 218
 - life insurance, 167
 - loan-to-value (LTV) ratios, 166
 - payment instalments (PTI), 167
 - price-to-income ratios, 169
 - secondary mortgages for renovation, 166
 - underwriting criteria, 165
 - upper income groups and corporate customers, 166, 169, 218
- Mortgage markets, 80, 218. *See also* Housing finance
 - foreign ownership, 163
- Multi-apartment buildings, 37
 - decline in services, 80
 - deteriorating quality, 139–142, 146, 147, 228
 - health issues, 145
 - management and maintainance, 46, 138, 142, 151, 158
 - management and maintenance, 46
 - poor technical condition, 144, 151
 - prefabricated housing estates, 38
 - privatized to setting tenants, 139
 - social mix, 145
 - state-owned construction companies, 79
 - technical documentation, lack of, 142
- Multi-family housing legislation, 213
- Multi-family panel apartment blocks, 120, 121
 - decline in market value, 121
 - reconstruction, 97
 - respiratory problem, 145
 - technical standards, 121
- Municipal maintenance firms, 77, 79–81, 80, 81, 87, 126, 140, 153
- N
- National Bank of Romania (NBR), 164
- National housing agencies, 73, 74, 85, 93, 97
- Nationalisation of industries, 26
- 'Nations of homeowners,' 2, 21, 209
- New housing construction, 128, 224, 225
 - cash payment requirement, 131, 225
 - cooperatives, 39, 41, 43
 - decline, 128
 - illegal, 225
 - lack of serviced land, 72, 131, 174
 - location, 184
 - market upper end, 131
 - planning and building permit process, 88, 213
 - planning and land management constraints, 205
 - sources of funding, 218
 - urban vs. rural, 177
- New housing policy
 - decline, 129
 - public sector agencies, 128
 - shift to renovation and rehabilitation, 128
- New housing prices, 137, 177, 178, 185

- New housing provision, 22, 218–220
 housing production capacity, 224, 225
 informal housing, 175, 176
 private housebuilders, 171, 172
 public/private cooperation, 173
 quality and costs, 177, 178
 self-help housing, 175
 speculative housebuilding, 174
 state enterprises, 118
 transition in, 172–178
- Non-government organisations (NGOs),
 80, 102
- Norwegian Refugee Council, 107
- O
- Owner-occupied housing, 123, 176
- P
- Panel technology, 145, 177
- Peripheral housing estates, 36, 134, 137
- Peri-urban areas, 190–192, 194, 199, 205
- Podgorica, 22, 107, 108, 207
- Poland, 34
- Polarization, 225
- Political instability, 54, 209
- Political transition, 51
- Post bank, 164
- Post-socialist housing systems, 4
- Post-socialist societies, 189
- Post-war reconstruction, 73, 212
- Poverty, 54, 58, 62
 attribute of particular neighbourhoods, 149
 informal housing, 199
- Poverty and social exclusion, 121
- Prefabricated housing estates, 38
- Pre-socialist housing, 42
- Primary market support functions, 16
- Primary mortgage market, 230
- Private building industry, 8, 17, 40, 72, 77, 79,
 171, 219
 consumer choices, 177
 economic efficiency, 181
 elite market, 79, 172
 finance and risk strategies, 182
 land strategies, 179
 large builders, 172
 new agents in homeownership, 172
 production cycle and efficiency, 180–182
 social efficiency, 182, 184
 under socialism, 2
 speculative housebuilding, 72, 174,
 176, 219
 speculative house building, 72, 174, 176
- Private house building, 6, 33, 225
- Private house industry, 219
- Private investment, 44
- Private rental sector, 127, 133
- Private tax on development, 79
- Privatisation, 6, 21, 53, 72, 73
 construction enterprises, 56, 57, 67, 170
 of housing management, 12, 139
 housing stock, 10, 17, 32, 123, 138,
 153, 225
 of tenancy, 14
- Privatisation aftermath
 housing stock quality, 153
 increase in social inequality, 67
 public housing decrease, 150, 151
 restitution, 66
 sitting tenants, 226
 transformation of cooperatives into
 condominiums, 67
- Privredna Banka, 163
- Property appraisers, 81, 170, 214
- Property registration, 27, 75, 81, 170, 212,
 214. *See also* Cadastre and property
 registration
- Property rights, 6, 42, 67, 68, 82, 124
- Publicly owned social housing, 152
- Public maintenance companies, 77, 140, 142.
See also Municipal maintenance
 firms
- Public/Private cooperation, 5
 new housing provision, 173
- Public rental housing
 local ownership, 124
- Public rental housing (table), 151
- Public/social housing, 15, 32, 44, 123, 225.
See also Privatisation
 allocation, 154, 156
 challenges and future prospects, 150–154,
 156
 changing institutional context, 152
 devolution to local governments, 212
 financial support, 154–156, 158
 government (state) support, 91–102,
 104–106, 108, 110, 111, 154, 212
 housing management, 156
 housing reforms, 69
 legacy of controlled ‘command’
 system, 140
 legal framework for, 71
 new programs, 212
 provision of, 97–99
 public utility companies, 145
 quality, 156

- regional perspective, 151
- rent arrears, 156
- social segregation, 156
- state investment in, 97, 212
- support for, 216, 230
- Public utility companies, 15, 77, 81, 200

- R
- Raiffeisen Bank Bausparkasse Romania, 164
- Rapid urban growth, 145
- Real estate agents, 72, 80, 170, 214
- Recession, 55, 63, 128, 129, 132, 186, 224
- Reconstruction and Return Task Forces (RRTFs), 102
- Reform fatigue, 53
- 'Reform path,' 23, 229
- Refugee related housing, 21, 73, 100, 101, 106, 108, 109
- Refugees and displaced persons, 59, 62, 103, 177, 192, 205
 - housing choices, 226
 - informal housing, 130, 199, 225
- Registration (property registration), 160, 218
- Regulatory instruments, 21
- Renovation and rehabilitation, 91, 95, 102, 128
 - collateralised mortgage lending, 217
 - secondary mortgages, 166
- Rental sector, 46, 151
 - lack of rental production, 195
 - private rental sector, 126, 132
 - reform, 23
 - rent control, 93
 - rent setting, 153, 155
- Republic of Serb Krajina, 52
- Republic of Srbska, 52, 76, 87
- Research methodology
 - comparative evaluation, 20, 229
 - comparative validation, 229
 - review of the literature, 19
 - surveys and field work, 19
- Resort apartment market, 183
- Responsibility for social housing, 124
- Restitution, 66, 92, 139, 152, 153, 215
- 'Retrenchment,' 9
- Reversed mortgages, 149
- Roma communities, 97, 101, 108, 123, 198, 200, 204
- Romania
 - affordable housing, 91, 110
 - Banking Law, 85
 - cadastre system, 75
 - CED housing reconstruction project, 105
 - central heating, 117
 - commercial banks, 79, 161
 - construction costs, 178
 - construction sector,
 - privatisation, 170, 171
 - consumer lending, 217
 - credit bureaus, 170
 - credit-to-GDP ratio, 162
 - demand-based assistance, 95
 - demographics, 61
 - economic transition, 54, 55, 62
 - European Union membership, 52
 - funding for public housing, 154
 - high rise construction technology, 145
 - homeowners' association, 141
 - homeownership, 42, 210
 - household size, 221
 - house prices, 134, 185
 - housing
 - allocation, 29, 152–154
 - loans, 44
 - management, 142
 - market intermediaries, 81, 214
 - policy, 29, 74
 - production, 29
 - programs (support for affordable), 110
 - provision, 37
 - quality, 222
 - reforms, 68, 212
 - shortages, 32
 - size, 29, 114, 177
 - stock, 113, 140
 - subsidies, 93, 110, 215
 - Housing Act, 83, 141
 - illegal property subdivisions, 194
 - income levels, 132
 - land costs, 178
 - land ownership, 43
 - legislation on construction and
 - planning, 34
 - local government, 73, 76, 214
 - Ministry of Public Works, Transport and Housing, 74
 - mortgage legislation, 83, 85, 165, 213
 - mortgage market, 163, 218
 - multi-family panel apartment, 120
 - National Housing Agencies, 73
 - National Strategy for Housing, 73
 - new housing construction, 120, 128, 173, 221
 - Party Congress, 38
 - political transition, 51
 - prefabricated housing estates, 38
 - primary market support functions, 218

- private housing industry, 219
 - Programme for Rental Housing
 - for Young People, 98
 - property registration, 83
 - public housing sale, 66
 - public rental housing, 97, 98
 - Real Estate Registration and Cadastre Law, 83
 - restitution, 152
 - retrofitting of multi-apartment buildings, 95
 - rural housing, 177
 - self-help housing, 175, 186
 - share of housing investment, 31
 - single family homes, 175
 - squatter settlements, 191
 - state provision of housing, 215
 - substandard dwelling, 115
 - tax incentives for homeowners, 215
 - tenant rights, 43
 - unemployment, 54
 - water and sewer systems, 34, 117, 118, 222
 - Romania local government, 11, 16
 - Romanian National Housing Agency (RNHA), 98
 - Romania property rights legislation, 82
 - Rural areas, 118
 - Rural housing, 30
 - single family housing, 118
 - water supply system, 117
 - Rural/urban divide, 30, 36, 222
 - Russia, 7
- S
- Sarajevo, 20, 116, 130, 132, 225
 - Self-help housing, 2, 30, 31, 33, 69, 205, 219
 - illegal subdivisions, 194
 - provision, 40
 - squatter settlements, 194
 - Serbia, 2, 53, 54, 188, 215
 - affordable housing, 93
 - bank failures, 161
 - construction and planning legislation, 88
 - construction costs, 179
 - construction sector privatisation, 78, 170
 - decentralisation, 76
 - foreclosure, 86
 - HOAs, 142
 - homeless people, 51
 - housing
 - allocation, 150
 - choices, 228
 - costs, 133
 - investment, 128
 - management, 142
 - policy, 74
 - privatisation, 66, 86, 152
 - reforms, 68, 210
 - shortages, 115
 - size, 115
 - Housing Law, 86
 - illegal property subdivisions, 193
 - inadequate legal framework, 214
 - income levels, 132
 - informal housing, 175, 176, 202
 - lack of regulatory institutions, 214
 - Law on Cadastre and the State Registration of Real Estate, 85
 - Law on Enforcement Procedure, 85
 - Law on Income Tax, 93
 - Law on Planning and Construction, 88
 - Law on the Basic Elements of Property Rights, 82, 85
 - local government, 75, 76
 - Ministry of Capital Investments, 74
 - mortgage
 - insurance, 164
 - legislation, 85
 - lending, 166
 - market, 162
 - new housing construction, 128
 - property registration, 85
 - property rights legislation, 82
 - property taxes, 89
 - public housing, 66, 123, 151, 152, 154
 - refugees and IDPs, 106, 107
 - Republic Construction Directorate, 93
 - Solidarity Housing Fund, 93
 - state provision of housing, 93, 215
 - subsidies, 96, 110
 - upgraded squatter settlements, 192
 - war reconstruction efforts, 91
 - Serbia and Montenegro, 19
 - cadastre system, 75
 - CED housing reconstruction project, 105
 - lack of served land, 131
 - refugee related housing, 106, 107
 - slums, 123
 - Service sector, 27, 57, 62
 - socialist model of development, 26
 - universal provision, 26
 - Single family homes, 137, 175
 - Skopje, 20, 153
 - informal housing, 88
 - market for flats, 136
 - upgraded squatter settlement, 192

- urban renewal, 37
 - war-damaged dwellings, 106
 - Social Cohesion Initiative, The, 101
 - Social efficiency, 16, 22, 179, 182, 184–186, 185, 186, 210, 220, 229
 - Social exclusion, 49, 62, 149
 - Social ghettos, 149
 - Social inequality, 62, 67
 - Socialist Federal Republic Of Yugoslavia, 52
 - Socialist housing systems, 28
 - diversity of housing supply and quality, 25
 - establishing (1950–1970), 31
 - forms of housing provision, 37, 39, 41
 - housing conditions, 33, 34, 36, 37
 - marketisation (1980–1990), 32
 - performance and outcomes, 33
 - private ownership and market mechanisms, 39
 - reforms (1970–1980), 31
 - rental sector, 32
 - rents and utilities costs, 44
 - role of the state, 28
 - tenure structure, 42–44
 - underfunded maintenance, 46
 - universal provision, 26
 - Socialist housing systems subsidies, 44
 - Socialist legacy, 3, 21, 25, 27–34, 28–34, 36, 37, 39, 41–44, 42–44, 46, 210
 - Socialist model of development, 25
 - Socially-owned land, 45
 - Socially owned property, 42
 - Social polarisation, 62
 - Social transition, 58, 59, 61
 - income inequality, 58
 - urbanisation, 61
 - Social transition urbanisation, 61
 - Social welfare policies, 10
 - Sofia, 172
 - homeownership, 39
 - population, 61
 - urban renewal, 37
 - Solidarity Fund, 40, 93
 - South East Europe, 1, 3, 4, 19, 20, 53
 - complexity and diversity, 13, 154
 - economic performance (recovery), 55, 132
 - economic recovery, 55, 132
 - model of state socialism in, 27
 - nation of homeowners, 146
 - ‘nations of homeowners,’ 2, 21, 209
 - rural hinterland, 33
 - Soviet Union, 26
 - dwellings size, 36
 - housing shortages, 34
 - socialist model of development, 25
 - urbanisation strategy, 35
 - Special needs housing, 22, 93, 100, 110, 154
 - Speculative housebuilding, 72, 174–176, 175, 176, 219
 - condominiums, 174
 - equity financing, 174
 - Squatter settlements, 189–192
 - Stability of investment and production, 12, 14
 - Stability Pact for South Eastern Europe, 101
 - State construction enterprises, 39, 41, 73, 81, 95, 152
 - disappearance of, 19
 - privatisation, 170
 - State/market balance in housing, 30
 - State/market intervention, 46
 - State/market mix, 2, 5
 - State provision of housing, 215
 - continued use of, 215
 - investment in social housing, 212
 - State Savings Bank (DSK), 164, 166
 - State vs. market solutions, 39
 - Stopanska bank, 163
 - Subsidies, 10, 15, 91, 92, 95, 96, 141
 - cutbacks, 80, 212
 - for homeowners, 42, 67, 215
 - housing allowances, 100
 - implicit housing subsidies, 110
 - new transfers, 212
 - production, 67
 - restructuring, 219
 - supply-based, 216. *See also*
 - Demand-based housing assistance targeting specific groups, 156
 - Subsidy instruments for housing renovation, 71
 - Subsidy reforms, 71. *See also* Housing reforms
 - Substandard dwelling, 115
 - Substandard housing, 116, 123, 149, 153, 194
 - Sustainable urban management, 201
 - Swiss Agency for Development and Co-operation, 107
 - Swiss Disaster Relief, 107
- T
- Taxation, 12
 - exemptions on construction licence and property taxes, 96
 - ‘private tax’ on development, 79

- property taxation, 76, 82, 89, 216, 226
 - taxes and transaction fees, 89
 - tax incentives for homeowners, 215
 - tax incentives for housing investment, 92
 - Technical management component, 156
 - Technical standards, 155
 - Technological advances, 27
 - Technological innovation, 61
 - Tenant rights, 43, 154
 - Tenure choices, 138, 186
 - Tenure structure, 123, 124, 127, 128, 227
 - Tetovo, 106
 - Tirana, 22
 - informal settlements, 130, 200, 225
 - population, 61
 - Transition economies, 6, 210, 211
 - 'Transition' metaphor, 5
 - Transitions to democracy, 59, 63
 - Transition to democracy, 21. *See also*
 - Political transition
 - Transition to market economy, 1, 2, 16, 46, 59, 63, 77, 209
 - Transparency, 1, 15, 215, 216
 - 'Trial and error,' 23
 - Tutunska Bank, 163
- U
- UBB (bank), 164
 - Unemployment, 54, 57
 - UNHCR (UN Refugee Agency), 102, 107, 108
 - Union of Serbia and Montenegro i, 53
 - United Nations Security Council, 108
 - Upgraded squatter settlements, 192
 - Urban housing
 - community facilities, 36
 - high density peripheral housing estates, 36
 - housing choices, 36
 - housing location, 36
 - rapid expansion, 120
 - Urban housing shortages, 29, 39
 - Urbanisation, 35
 - Urban Land Management
 - Project (Tirana), 131
 - Urban poverty, 4, 22, 62, 195
 - Urban renewal, 37. *See also* Renovation and rehabilitation
 - Urban/rural divide, 26, 30, 38, 61, 222
 - Utilities, 44, 133, 155, 158, 226
- V
- Vienna Declaration on National and Regional Policy Programmes, 187, 201
- W
- War-damaged housing, 121
 - War damages, 31, 115, 121, 195, 224
 - War reconstruction efforts, 36, 91, 92, 175
 - Water and sewer services, 23, 36, 117, 123, 175, 192
 - Welfare state reforms, 9
 - World Bank, 5, 131, 195
 - World Bank cadastre projects, 84
 - World Bank Poverty Assessments, 59
 - World Health Organization, 145
 - World Vision, 204
- Y
- Young households, 93, 95, 199, 215
 - Yugoslavia, 25, 32, 45, 46, 53
 - building cooperatives, 39
 - homeownership, 33, 42, 43
 - housing
 - allocation, 29
 - delivery systems, 33
 - production, 29
 - political transition, 51
 - privatisation of rental housing, 32
 - regional differences in housing
 - conditions, 35
 - self-help housing provision, 39
 - share of housing investment, 31
 - socialist model of development in, 26
 - social ownership in housing
 - and land, 30, 42
 - Solidarity Fund, 44
 - urbanization, 35
 - Yugoslavia (former Yugoslavia)
 - cadastre system, 75
 - Solidarity Fund, 78
 - transformation of Cooperatives into Condominiums, 67
- Z
- Zagreb, 95, 136
 - property registration, 484
 - urban renewal, 37
 - Zagrebacka Banka, 163