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

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

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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

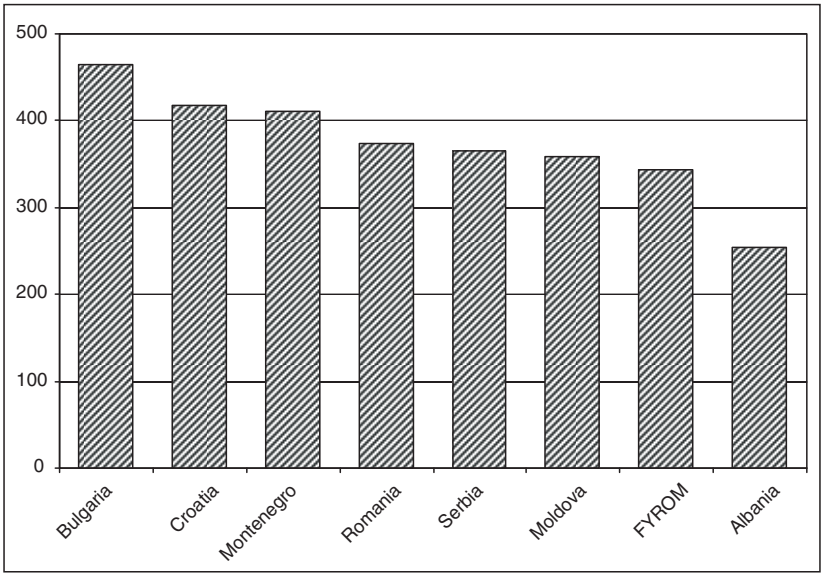

Fig. 6.1 Dwellings per 1,000 inhabitants, 2002. *Source:* Tsenkova (2005); Council of Europe Development Bank Regional Housing Survey

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

[2] In 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 household size	1-person	2-persons	3-persons	4-persons	5-persons 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

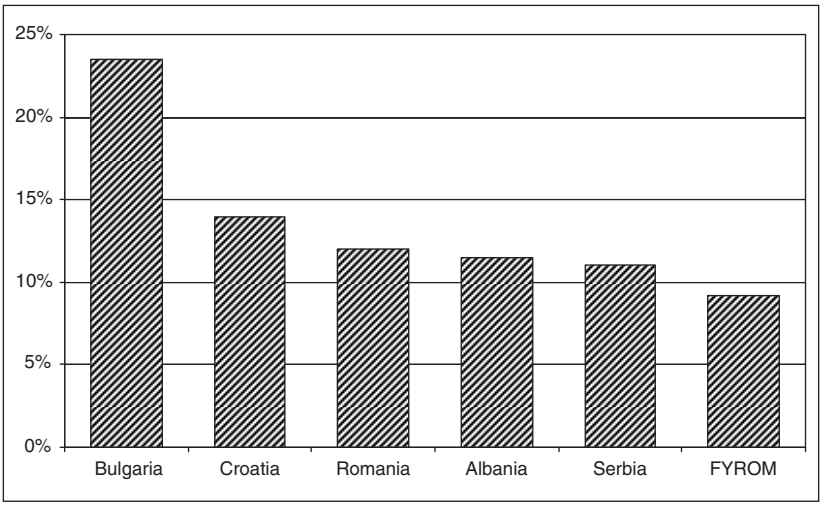

Fig. 6.2 Vacancy rates in South East Europe. *Source:* Tsenkova (2005); Council of Europe Development Bank Regional Housing Survey

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

[3] Noting 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).

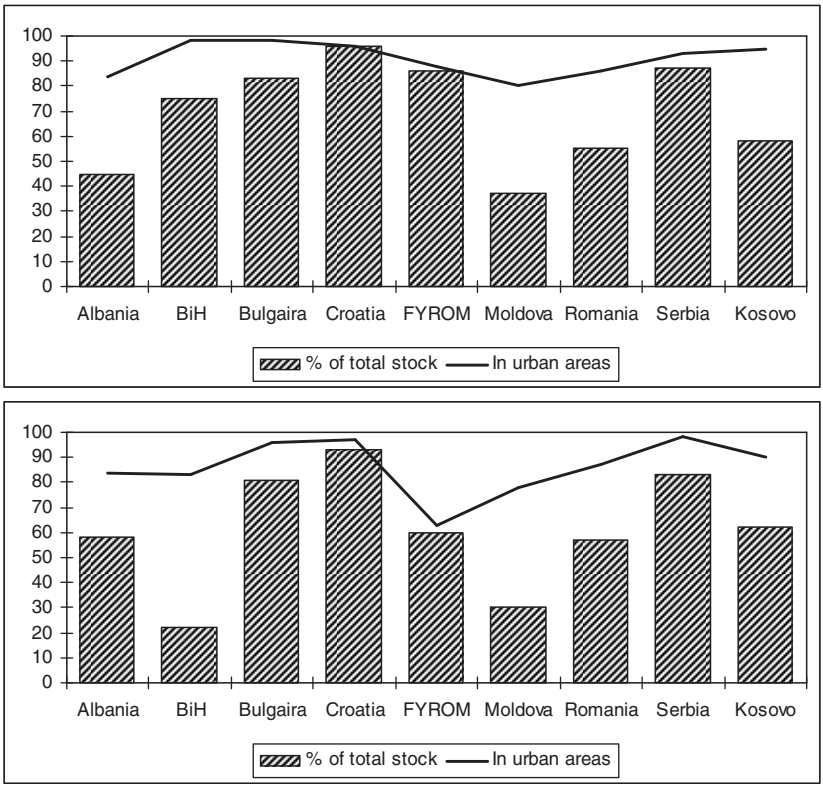

Fig. 6.3 Dwellings serviced by sewer and water, 2002. *Source:* Tsenkova (2005); Council of Europe Development Bank Regional Housing Survey. Note: Data for BiH from *The Living Standards Measurement Survey*, Agency for Statistics of Bosnia and Herzegovina (2004); for Kosovo from *The Household Budget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

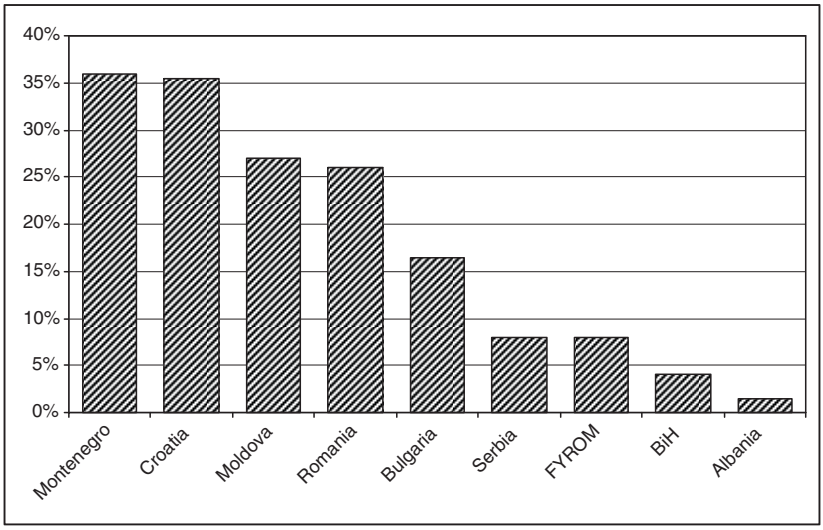

Fig. 6.4 Dwellings serviced by central heating, 2002. *Source:* Tsenkova (2005); Council of Europe Development Bank Regional Housing Survey. Note: Data for BiH from Agency for Statistics of Bosnia and Herzegovina (2004)

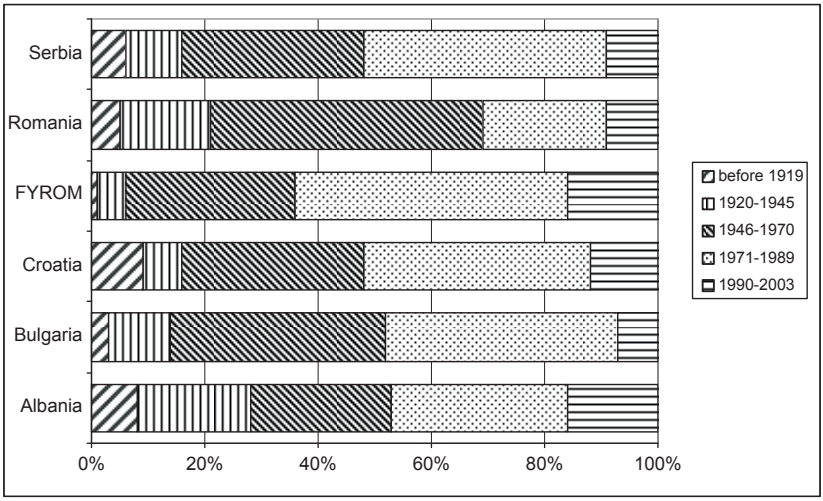

Fig. 6.5 Age characteristics of the housing stock. *Source:* Tsenkova (2005); Council of Europe Development Bank Regional Housing Survey

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

[4] Close 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

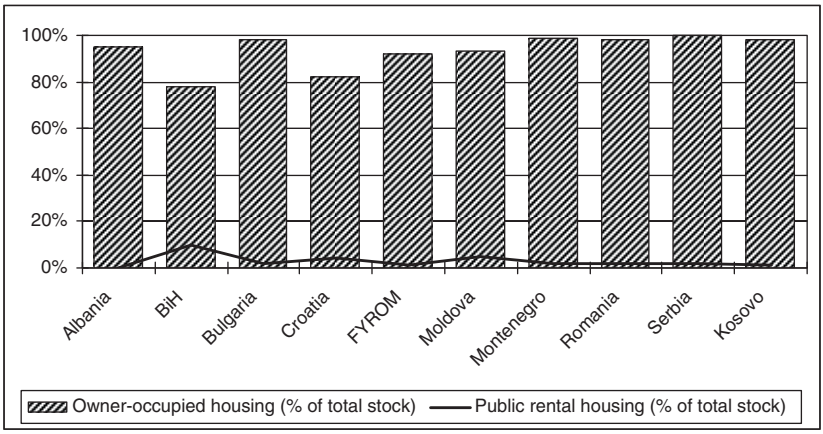

Fig. 6.8 Ownership of housing in South Eastern Europe, 2002. Note: Data for BiH from *The Living Standards Measurement Survey*, Agency for Statistics of Bosnia and Herzegovina (2004); for Kosovo/UNMIK from *The Household Budget Survey*, Statistics Kosovo, 2004. *Source:* Tsenkova (2005); Council of Europe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

[5] Before 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)	Public rental housing (% of total in urban areas)	Private rental housing (% of total at national level)	Private rental housing (% of total in urban areas)	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)
Albania	2001	0	0	4	7.1	93.6	88.7	2.4	4.2
BiH	2001	9.0	13.4	1.3	1.9	78.3	72.2	11.4	12.5
Bulgaria	2001	3.0	4.2	1.9	–	94.6	–	0.5	–
Croatia	2001	2.8	–	10.8	–	83	–	3.4	–
FYROM	2002	0.6	–	8.9	–	90.4	–	0.1	–
Moldova	2003	5.0	12.1	–	–	94.7	87.3	0.1	–
Romania	2002	2.2	3.4	1.6	2.7	95.1	93.1	1.1	0.8
Serbia	2002	2.1	2.4	2.0	5.0	95.9	92.6	0.0	0.0
Kosovo/ UNMIK	2002	1.4	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 pubic 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

[6] In 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

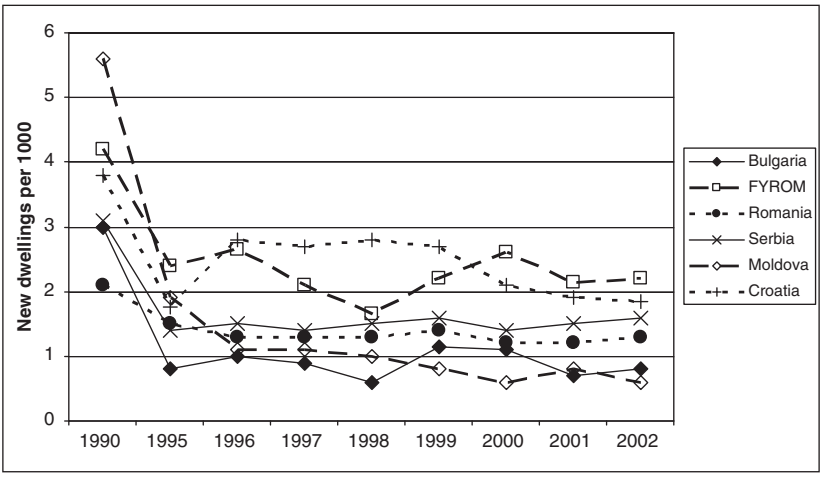

Fig. 6.12 Rates of new construction in South East Europe. *Source:* Tsenkova (2005); Council of Europe Development Bank Regional Housing Survey

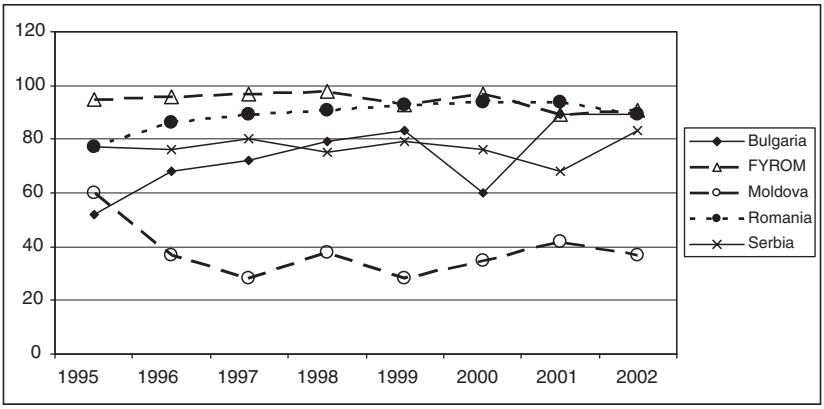

Fig. 6.13 Rates of private new construction in South East Europe. *Source:* Tsenkova (2005); Council of Europe Development Bank Regional Housing Survey

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)

[7] Most 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).

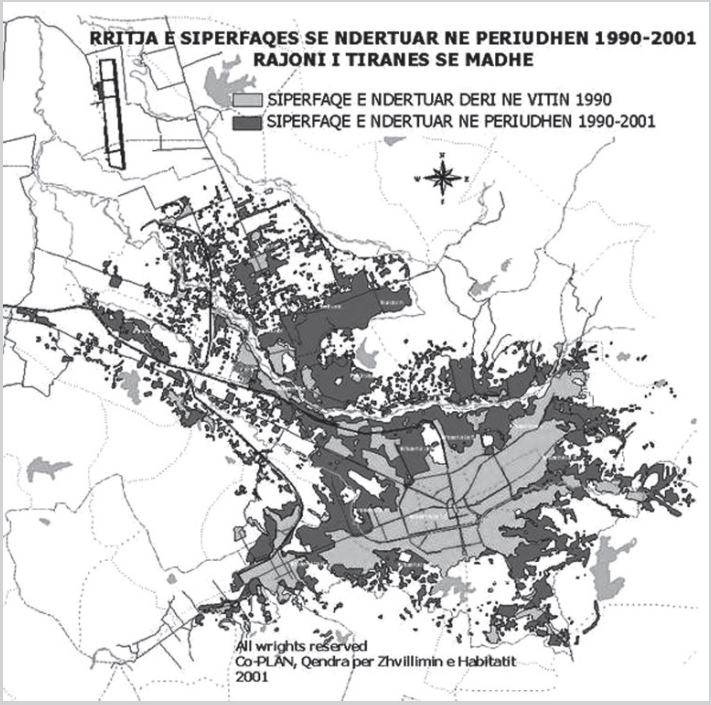

Fig. 6.14 Urban growth and informal settlement formation in Tirana

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 pur. chasing 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.

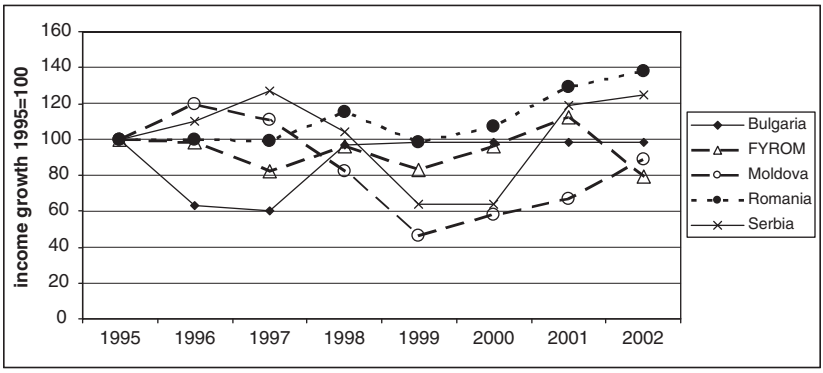

Fig. 6.15 Income dynamics in selected countries in South East Europe. *Source:* Tsenkova (2005); Council of Europe Development Bank Regional Housing Survey

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

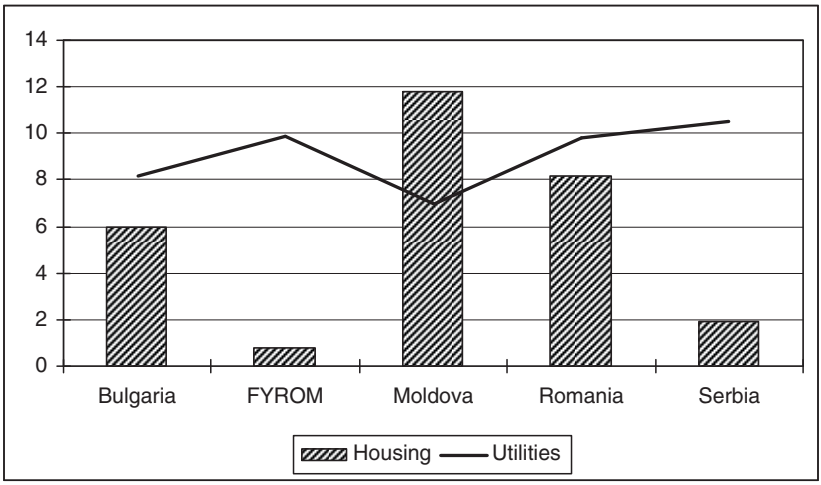

Fig. 6.16 Housing costs in selected countries in South East Europe. *Source:* Tsenkova (2005); Council of Europe Development Bank Regional Housing Survey

(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).

[8] These 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
				Prices in € per sq m, 2004					
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

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.

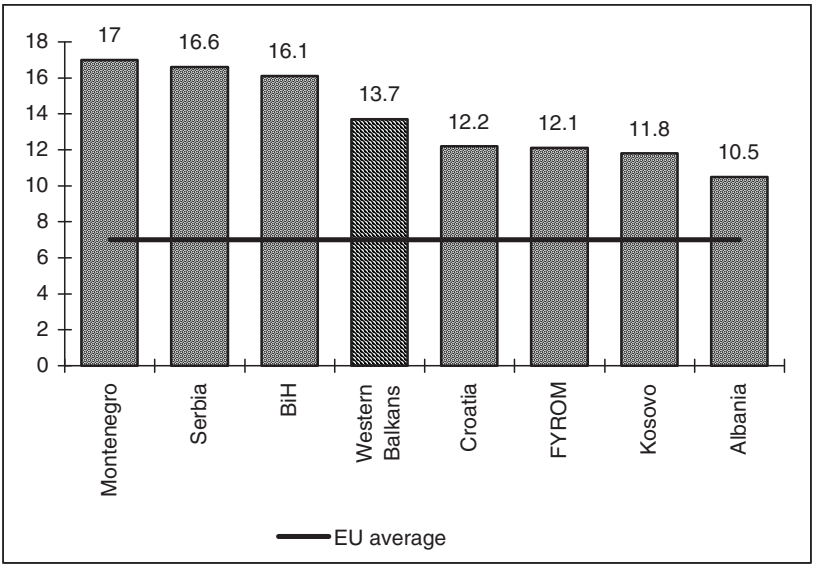

Fig. 6.18 House price-to-income ratio in the region, 2005. *Source:* Registra, Analystas and Imantra (2005b)

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.