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## Central and East European Housing Regimes in the Light of Private Renting

József Hegedüs, Vera Horváth, and Martin Lux

### The Private Rental Sector in Post-socialist Societies: An Overview

The legal, institutional, and financial environment of private renting seems at first glance quite similar across Central and East European (CEE) transition countries, particularly when compared to Western and Northern European renting regimes. This is partly due to their close starting points, as they emerged out of the 1989–1990 regime changes in the region, and is also due to the many similar challenges they faced during the transition process. Nonetheless, some important differences must also be taken into account. As regards what they have in common,

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J. Hegedüs (✉) • V. Horváth  
Metropolitan Research Institute, Budapest, Hungary

M. Lux  
Institute of Sociology of the Czech Academy of Sciences,  
Prague, Czech Republic

with just a few exceptions, there is a pervasive amount of informal renting and therefore ‘hidden’ tenancies in the private rental sector (PRS), and whether official statistics alone or expert estimates of the real size of the sector are considered, it is still on average smaller in size than it is in Western European countries. Many post-socialist states in the CEE region have become ‘super-homeowner’ societies, where government housing policy is prevailingly still strongly pro-home-ownership, despite owner-occupation rates already as high as 80–96 per cent of the inhabited housing stock, and despite several negative features of the disproportionately high home-ownership rate that stem from the rigid tenure structure such as greater sensitivity to external market shocks and reduced options for residential mobility. Social housing sectors in the region have become residualised, and in most CEE countries the rental sector as a whole is inefficient, with commercial renting unable to make up for the shortage of public rental stock.

However, this image of the ‘super-homeowner society’ is not all-pervasive in transition countries. The rental sector received substantial policy attention in some countries, like in the former East Germany almost immediately after reunification, and in the Czech Republic and Poland after a prolonged period of restructuring and reforms. The pro-ownership policy bias remained strong in most CEE countries, while policy-makers’ limited interest in also addressing the challenges and inefficiencies of the rental sectors led to a high level of informality and tax avoidance in the PRS of many CEE countries. Nonetheless, PRS did reach a significant share of the housing stock despite systematic lack of policy and financial support. The chapter ‘The Policy Environment of Private Renting After 1990’ in this volume discusses the reasons behind the high prevalence of the shadow economy in the PRS in transition countries; the following paragraphs and Table 16.1 provide a quick overview of the estimated real share of privately rented housing as opposed to official statistical data based on recent research projects and the input of country case study authors of the present volume.

In Estonia, Hungary, and the Russian Federation, statistical information suggests commercial residential renting is of marginal significance, but experts estimate the real share of the hidden PRS to approach or even surpass 10 per cent. Overall, there are clear signs of a shift towards

**Table 16.1** Social rental housing stock, compared to 'reduced price or rent free' rentals and market rate rentals (2012)—percentage of the housing stock

	Social rental housing as percentage of housing stock	Share of tenant households—reduced price or free	Share of tenant households—market rate
Bulgaria	3.1	11.3	1.3
Czech Republic	17.0	6.4	13.2
Estonia	1.0	14.7	3.0
Hungary	3.7	7.1	3.1
Latvia	0.4	10.7	7.8
Lithuania	3.0	6.7	1.4
Poland	10.0	13.6	4.0
Romania	2.3	2.9	0.8
Slovenia	6.0	18.3	5.5
Slovakia	2.6	1.8	7.8

Source: Social housing stock: Housing Europe (2011: 23); Share of tenant households: Eurostat SILC: Distribution of population by tenure status, type of household and income group

an increasing volume of private renting, especially after 2008, when the Global Financial Crisis (GFC) reached the region, and the social costs of debt-based low-income home-ownership became salient. According to Lux and Puzanov (2013) and expert estimates by authors of the country case studies in the present volume, private renting formed an important part of the housing stock around 2010 in former East Germany (29 per cent of the housing stock), the Czech Republic (14 per cent), Russia (13 per cent), Estonia (11 per cent), Hungary (8–10 per cent), and Poland (9 per cent); in Croatia it reached 6 per cent of the stock.

Small-scale private individual landlords, who represent the vast majority of landlords in CEE, are often keen to avoid paying taxes on their rental income, so they conceal their activity from the authorities, and therefore the existence of their rental units often lies outside the purview of statistics in most countries, which leaves a large share of the sector inaccessible for large-scale data collection. With the notable exceptions of the former East Germany and the Czech Republic, this happens in all the other countries analysed in this book. Therefore, the difficulty of estimating the real size of the PRS must be underlined. According to a World Bank research report (World Bank 2006), the actual share of the PRS may have been as high as

18 per cent in Poland in 2002, and 12 per cent in Lithuania, where official statistical data (Eurostat, based on national Census data) for the share of private rentals was less than 1 per cent in 2006. Not only is the size of the PRS uncertain; its economic and social characteristics and the stratification of its demand- and supply-side actors are also hard to assess. Sendi (2003) showed that the PRS in Ljubljana is a niche market, typically targeted at students and diplomats. A study in Hungary (Erdösi 2000) showed the importance of trust in rental contracts for landlords to be able to manage risks. Comprehensive studies on the PRS in developing and post-socialist countries (UN-HABITAT 2003; Dübel et al. 2006; Peppercorn & Taffin 2013) conclude that the PRS has significant potential from a public policy point of view, but in practice it falls short of fulfilling this potential due to the lack of much needed reform in housing—for example, in the areas of taxation, management, and rent regulation.

A notable characteristic of the PRS in the CEE region (with the exception of former East Germany, the Czech Republic, and to some extent Poland and Russia) is the lack of institutional investors. Policy analysts often recommend the introduction of measures aimed at strengthening institutional investment in residential renting, based on the assumption that this will bring stability and professionalism into the sector. As Scanlon and Kochan (2011) point out, while institutional landlords (both private and municipal corporations) do play a significant role in some national private rental markets, such as in Austria and Sweden, where the vast majority of dwellings are leased by corporations and companies, in most West European countries, the majority of rented dwellings are also owned and managed by individual (small) landlords. The share of dwellings leased by institutional landlords is thus only 37 per cent in Finland and the Netherlands, around 25 per cent in the United Kingdom and Switzerland, and 17 per cent in Germany; their role is marginal in France or Ireland (Scanlon and Kochan 2011: 23; Kemp & Kofner 2010). Therefore, the dominance—or even the existence—of institutional landlords is not in itself necessary for a well-functioning PRS.

On the other hand, there are some characteristic features of the PRS in transition countries that make institutional landlords seem desirable. Informal private renting and the related ‘tradition’ of tax evasion, appearing to be stemming from the shared socialist legacy, is still a predominant

factor in most CEE countries. Informal letting under socialism was, of course, prompted by the lack of policy support and the often unfriendly stance of the state towards private renting for decades prior to 1989, but it seems to have been perpetuated since the early 1990s in part by the limited attention paid to housing policy throughout the region even after 1990 (Priemus and Mandič 2000). This also means limited political attention paid to the potential role of a consistent national housing strategy, tenure-neutral policies, and little state support for rental housing development. Institutional investors could therefore bring not only professionalism but also much-needed capital to the sector and a change of perspective among policy-makers and politicians. The events of the GFC—which reached CEE countries in 2008 or as late as 2009—clearly pointed to the drawbacks of rigid, owner-occupation-dominated housing regimes, and to the high risks of mortgage lending to low-income homeowners. Moreover, in many countries, the crisis was followed by the housing market collapse and a prolonged recession. There were expectations at the time that the stock of unmarketable dwellings that real-estate developers or, due to foreclosures, financing institutions were stuck with would form the basis of commercial residential renting. However, state policies towards private renting typically remained unfavourable, which means that professionals are just as unable to attain an attractive yield on leasing dwellings. And while a private person might consider obtaining one or more additional dwellings as a form of savings, even though they do not yield much profit, a large-scale investor is, logically, more sensitive to the capital return and yield. Accordingly, as soon as markets began to pick up, corporations with a significant housing stock sold off their dwellings immediately.

Private landlords in most CEE countries, thus, continue to consist predominantly of private individuals who own a second (rarely a third, fourth, etc.) dwelling, and most of them let it as a supplementary activity rather than a professional one. The recurring exceptions are the former East Germany, with a housing environment that was quickly integrated into the reunified Germany's tenure-neutral context; the Czech Republic, where institutional investments appeared and large property restitution created middle-scale landlords; and to a smaller extent Poland, with a slightly friendlier regulatory environment; and some of the major urban

hubs in CEE countries, where a recent upsurge in profitability eventually began attracting institutional investment. Another shared characteristic of transition countries is the slow but persistent increase in income inequality, which has been driving both the supply side and the demand side of the PRS and partly accounts for the sector's growth, despite the lack of a more encouraging policy context. Higher-income households may see real estate as a safe investment compared to money market opportunities. These decisions are strongly dependent on the market outlook and other investment possibilities. At the top end of the income distribution scale, households can choose from a wider portfolio of investment and saving options. Due to the unpredictability of the pension systems, investing in real estate is a reasonable choice for even some middle-income persons. Interestingly, the increase of housing prices in the region often took place in times when alternative investment possibilities were considered to be less advantageous—for instance, in 1998–2000 and 2012–2014, when the impact of the regional money market crises was felt, while these did not have a big impact on housing markets.

At the bottom end of the income distribution, households cannot afford home-ownership. A growing number of low-income households are being forced into private renting, and even more so since the crisis and the subsequent credit restrictions of the late 2000s. Typical tenants on the demand side of the PRS are households who cannot find (or cannot afford) the right housing solution in the owner-occupied sector. As Jan Brzeski (2007) argued, the 'non-beneficiaries' of privatisation tend to comprise the vast majority of the demand side of the PRS, such as young and mobile people (students, young professionals); migrants moving from rural to urban areas unable to afford an urban dwelling from the sale of their old rural home; vulnerable groups in need of emergency housing; the permanent urban poor; the divorced; and single parents. However, as long as potential tenant households have other housing options, like living with other family members or moving to the lower segments of owner-occupation, their tenure choice will depend on the availability and the affordability of these options. Because the least expensive forms of housing (which is essentially moving to the bottom segment of the housing market) are often regarded as very unappealing from the perspective of social status, even relatively low-income households are often will-

ing to spend a massive share of their disposable income, and give up on other, similarly essential but less visible goods, in order to secure a more widely accepted form of housing. The housing cost overburden is typically the highest for private renters all over Europe, and having to spend 40–60 per cent of disposable household income on rent and utility payment alone is a widespread challenge for private renters all over Europe. However, unlike their Western European peers, low-income renters in CEE countries have a significantly higher likelihood of having to live in substandard housing or severe material deprivation. Consequently, when low-income households lose their property or social tenancy because of financial difficulties, they often end up in the bottom end of the PRS in poor-quality housing, where the level of rent and utility costs further overburden their already strained budget. At the same time, given that renting has a low social status as a form of long-term housing, many households with a modest income are willing to take on a heavy debt to secure home-ownership, which does not spare them from the risks of cost overburden. In this case, they may spend half or more of their income on mortgage repayment and utilities. While expanding the social housing stock is often envisioned as a possible solution to secure adequate and affordable housing for more low-income persons, a tenure-neutral, income-targeted system of housing benefits could in fact provide significant relief to the budgets of many lower-income households without requiring a big investment from the state. But to date, many countries still lack a proper system for providing housing benefits, or the system they have is too poorly targeted to resolve the problem of housing affordability for tenants in private rentals (Lux and Puzanov 2013).

The demand side of the market is clearly diverse, ranging from a narrow high-end to wider medium- and low-end sub-market, and with some clearly defined sub-groups:

- (1) Foreign professionals, who occupy the high end of the rental market: this is a relatively small sub-group (like all high-end markets), but it forms a steadily growing share of the market;
- (2) Young professionals, who delay buying a home before planning a family; some of them are simply aiming to act in a financially responsible manner, especially since the GFC, and want to avoid the

- risk of taking on a long-term mortgage loan before the mortgage markets seem to have fully recovered, and before they have managed to save enough for a substantial down payment on housing;
- (3) Middle-class or lower-middle-class persons or families who have recently migrated within the country;
  - (4) Students are arguably the largest and most stable sub-group of private renters. While some will only rent in the September–June period, many stay in one rental apartment for years (either the owner keeps the flat vacant for the student renters he or she already knows, and considers reliable, or the student renters also stay for the summer, which is especially common in larger urban centres; some even stay in the rented dwelling after graduation and in the early stage of their career).
  - (5) Lower-income households who cannot afford home-ownership; this group includes people who defaulted on their mortgages as a consequence of the GFC and are currently not creditworthy. They are usually also excluded from social housing, because they were property owners in recent years; they consequently have no other option but to enter private renting.
  - (6) Many of the poorest households or persons who have no access to social rental housing simply because of the grave shortage of such housing are forced by the lack of any other options to enter the lowest segment of the private rental housing market.

To sum up, the PRS in post-socialist transition countries (1) is generally considered to be a residualised sector of the housing stock that exists alongside the marginal sector of social housing and the predominant sector of owner-occupied housing; (2) is, however, with the exception of former East Germany and the Czech Republic, much larger than what statistics suggest; and (3) encompasses not only housing for students, young professionals, and other financially solid and/or transitory users but also a large number of low-income households with no other housing options (i.e., the hidden part of the PRS). These households are left all the more vulnerable by the unbalanced regulation of private renting, the weak enforceability of valid contracts when they do exist, slow and expensive civil litigation, and the lack of mediation and alternative dis-



pute resolution mechanisms. On the other hand, tenant protection in the field of the PRS is often quite strictly regulated. As a result, while many private renters do not receive any public financial support to help them pay their rent, they are often strongly protected when they are unable to pay their rent during the term of the contract. This protection does not add stability to their situation so much as it discourages many potential private landlords from entering the market.

The main barrier to the PRS becoming a strong tenure in the long term is the vicious circle of an unbalanced housing (tenure) system. Throughout the transition period, the public subsidies for owner-occupied housing were several times greater than the public subsidies for rental housing. The state housing policy bias across the region to favour home-ownership was reinforced by the widespread giveaway privatisation of public housing. Home-ownership gradually became a popular and powerful social norm, while renting, by contrast, became stigmatised as a residual and temporary form of housing. The demand for private renting became more volatile, and the rent deregulation that sooner or later happened in most transition countries increased the turnover of tenants in the PRS.

The judicial proceedings that accompany justified eviction are still very lengthy, and therefore private landlords continue to agree to leases for only a fixed term, in most cases for one year, despite the increasing competition on the market. However, the short term of a typical contract shapes the demand in the PRS and adds to its temporary status: it deters households and especially families from renting if they are seeking a stable, long-term home, even if they are financially stable. Instead, the households who could afford long-term, solid quality rented housing will turn to ownership, and most households that remain in rented housing for a longer time will be those that cannot afford to buy housing because they have low income or social problems. The fact that the rate of tenant turnover is increasing and that socially vulnerable households are beginning to become concentrated in the PRS may encourage landlords to build a higher risk premium into the requested rent. This may make average rents significantly higher than the average user costs of home-ownership, which could further decrease the attractiveness of the PRS and the risks that serve to curb the sector's growth. An unbalanced tenure policy thus

increases the social differentiation of the population according to housing tenure. In other words, if private renting serves only those who frequently move and/or have low income, it can hardly be a competitive alternative to home-ownership tenure in the long run.

On the side of landlords, the risks are numerous: as tenancy is clearly unaffordable for many tenants, a number of tenant protection measures have been put or left in place that do not help renters to be able to afford their housing, but give them the right to go on living in a housing unit that they cannot afford. This poses a serious risk for landlords, who cannot access their property, while the tenant may even accumulate utility arrears as well, which the landlord may or may not be able to recover from the tenant. In the end, the private market is risky for both tenants and landlords in most of the CEE region; these risks are often managed by parties through informal conflict management techniques. As each side depends on the other, most private renting conflict management will be amicable, and the sector as a whole displays a fair amount of self-regulatory behaviour. Ultimately, however, the unbalanced regulation and the lack of market correction mechanisms in this field (in the housing sector) mean that the behaviour of households on both the demand side and the supply side of the PRS may increase the real or perceived risks inherent in PRS, and accordingly may contribute to the volatility—and through ‘risk premiums’, the overall rent level—of the sector. This creates a vicious circle, as the perception that the PRS is a risky and unaffordable form of tenure may in fact make it a riskier and more volatile sector, which will constrain the sector’s growth, and, as a result, the supply of private renting will continue to fall short of the demand and need for flexible rental housing.

## **Central and East European Housing Regimes: Convergence or Divergence?**

After 25 years of regime changes in CEE, there is no consensus among housing policy researchers on the direction in which post-socialist housing systems are developing. It is still unclear whether they are following the same trends and will converge in a similar housing model that lies in a

liberal, residual, or family-based direction, or whether trends in the CEE are headed towards the development of fundamentally diverging models (Stephens et al. 2015; Hegedüs 2009; Tsenkova 2009; Hegedüs and Struyk 2005). If we compare tenure structures in CEE EU member states, the similarities seem strong. Each country went through an extensive privatisation process, and, although the methods and pace of privatisation were different, nearly all of them ended up with a residualised social rental sector. Housing finance systems began to develop in every post-socialist country after 2000, and mortgage markets expanded fast, even though they remained modest in an overall European comparison. And although in each country the institutional structure was very different, in terms of funding schemes, housing loan products, underwriting mechanisms, the role of intermediaries, and the rate of the sector's expansion, the direction (or movement/development/progress) seemed similar (Hegedüs and Struyk 2005; Hegedüs et al. 2014). Years after the GFC, observers are again uncertain as to whether crisis responses supported divergence or convergence trends. Bohle (2014) and Csizmady and Hegedüs (2016) describe the differences in the mortgage rescue programmes of Hungary and Estonia, two countries that accumulated large foreign exchange (ForEx) loan portfolios. However, we do not yet know how these differences will affect the development of CEE housing regimes.

The development of the rental housing sectors in CEE countries was very similar to what was seen in Western European countries, and started with the mass construction of rental housing at the turn of the nineteenth and twentieth centuries, followed by rent freezes after World War I, and attempts to re-attract investors in private renting during the interwar period (see chapter "The Private Rental Sector in Western Europe" of this volume). However, the renting in socialist CEE countries followed a separate path from the rest of Europe after World War II: in most socialist countries in CEE, the private rental stock was either almost entirely nationalised and transferred to local council management or at least operated under strict state control (like in Poland or East Germany). Some forms of private renting appeared in CEE countries under socialism, typically in the form of officially approved forced renting, and the informal or semi-formal sub-letting of state-owned rentals (see chapter "The Private Rental Sector Under Socialism" of this volume). The latter was

usually tolerated by the state as a compromise; both existed due to the serious housing shortages that could never be effectively overcome by the state administrations. Centrally administered socialist states could not function efficiently enough to provide housing to meet existing needs, so the authoritarian regimes often decided to be permissive about some forms of privately managed housing to ease possible social tensions (see chapter “The Private Rental Sector Under Socialism”). Nevertheless, the PRS essentially had to be re-created and re-regulated in the transition process after 1990 through housing policy reforms. The form and scope of property restitution played a significant role in the development of PRS after 1990 (see chapter “Property Restitution After 1990”). The central question raised in the final chapter of this book, then, is what role the PRS played in the development of the housing systems in post-socialist countries.

## Tenure Structures and Housing Markets in Transition and Beyond

The regime changes in the region were immediately followed by a transitional recession in most CEE countries that lasted on average for 3–5 years (Mitra 2001: 3–5). This was accompanied by a period of legal and economic restructuring, which took a decade or in some places even longer. Despite huge differences in the pace of economic recovery and restructuring and the institutional responses, the overall transition process and the main changes in the housing sectors were very similar: all aspects of housing production and provision (the state owned the construction and building materials sectors, as well as the banking sector) and the vast majority of formerly public task housing were privatised. Social housing management was decentralised, as was the authority legally responsible for the provision of social housing, which was reassigned (in most cases) to the municipal or (less often) the regional level. While housing policy, housing support, and housing construction were key issues in socialist countries, they almost entirely ceased to be a policy priority in all transition countries after 1989, to the extent, in fact, that while housing was a major expenditure in socialist state budgets, states and local authorities

today typically play a much more limited role in housing in the CEE region than in most older EU member states (Priemus and Mandič 2000). The first major housing policy measures were mass privatisation of public rental housing and property restitution, leading to the dissolution of the socialist housing model (what is called the 'East-European Housing Model'; see Hegedüs and Tosics 1996).

However, different transition countries took different approaches to restructuring housing tenures. While some countries intended to make a clear break from the socialist past, the transition process was much more gradual in others. The Baltic countries exemplify the former case: once independent from the USSR, they fundamentally revised their housing legislation and housing sector, executing a strongly marketised and coordinated transformation of the housing sector, with little attention to its social or welfare aspects. Some other countries had begun reforming the legal environment even before 1990, and their transition process was slower and more gradual, but most of them also privatised and marketised their housing sector to a similarly large extent and in almost every case saw their public housing sectors shrink to below 10 per cent. Slovenia represents the opposite end of this scale, as there the housing transition was also strongly coordinated centrally, but the social aspect of housing policy always retained its prominence.

In the decentralisation process, most of the public task rental housing stock was transferred under the authority of the local municipalities, as was the responsibility for the provision of social housing (Mitra 2001). Because the sector was heavily subsidised by the state under socialism and enjoyed strong tenant protections and artificially low rents, and because the municipalities were not allocated sufficient funding with which to manage the social housing they were now responsible for, the sector immediately began to be a financial drain on the municipalities, which immediately began to privatise as much of their social housing stock as possible. By the late 1990s, the amount of social rental housing in most CEE countries had shrunk to a fraction of what it had previously been (Hegedüs 2013). Lux (2003) differentiated three models of housing privatisation: 'fast privatisers' (e.g. Estonia, Hungary, Slovakia, Slovenia), 'slow privatisers' (e.g. the Czech Republic, Latvia, Poland), and the

outlier Bulgaria, a country that had a low share of public housing even at the beginning of transition.

In a number of CEE countries, an important share of formerly public task housing was transferred to private ownership through property restitution. Restitution in kind was a major policy goal in some CEE countries, while the former owners or their legal successors only received varying levels of financial compensation in others. While there was a dramatic decrease in the provision of public housing in all transition countries, the form and scale of property restitution varied significantly within the region. The Czech Republic, Poland, and East Germany, for example, used in kind restitution on a large scale, while, in Hungary, former landlords received only symbolic financial compensation, and in Russia often no compensation at all. The scale and method of housing restitution seem to have had an important effect on the size of the PRS today and on how professionalised the sector is, which is indicated by how much legal private renting there is and whether and to what extent professional or even institution landlords are active in this sector. The former East Germany and the Czech Republic each have a relatively large and professionalised PRS, largely operating as part of the formal economy today. Most restituted housing units in these two countries remain part of the formal economy, in contrast to the housing let by many small-scale individual landlords who often avoid registration or paying tax on rental income (Lux & Mikeszová 2012). While the extensive and often prolonged protection of tenants in restituted housing also turned out to be a source of conflict within the sector, the potential of restituted housing in PRS is noteworthy.

As discussed in the chapter “The Policy Environment of Private Renting After 1990” of this volume, the slow progress of the PRS in most transition countries was due to the fact that both tenants and landlords face financial disadvantages and the drawbacks of poor regulation in the PRS. Financial disincentives discourage actors on both the supply and demand side from entering in a private rental relation. Subsidies (such as housing benefits) available to private sector tenants are marginal (with the exception of the former East Germany and the Czech Republic). Assessing the tax and benefit environment of the PRS in CEE countries reveals that while subsidies and tax concessions are available to all current and prospective homeowners, no subsidy is specifically targeted to current

or would-be landlords to stimulate private letting (Hegedüs and Horváth 2015: 31–32; Hussar 2015: 30–34; Jakopič and Žnidarec 2014: 80–88; Panek 2015: 16–20; Petrović 2014a: 67–75, 2014b: 56). Consequently, entering the PRS is not so much an outcome of free choice as a residual solution to fall back on, where neither the demand- nor the supply-side actors have other realistic alternatives (Lowe 2000, 2003; Erdősi 2000; Hegedüs and Teller 2008).

The legislative framework for the PRS in transition countries tends to be liberal to the extent that it offers hardly any help in practical cases. Mandatory minimum requirements set by law on housing and residential lease typically include not much more than the identification of the object (the dwelling), the contracting parties, and the rent level; in many cases, not even a check on the habitability of the leased object is requested (Zahariev et al. 2014: 135; Jakopič and Žnidarec 2014: 125–126; Hegedüs et al. 2014: 104–105; Podrazil et al. 2014: 68; Kolomijceva 2014: 100; Panek 2014: 129; Bejan et al. 2014: 93). There are some minimum requirements stipulated by law in Lithuania, Slovakia, and Slovenia (Mikelėnaitė 2014: 100–102; Štefanko 2014: 123–125; Petrović 2014a: 104–105), but even these few provisions are vague, and leave plenty of room for different interpretations and for disputes on what they mean to arise during the term of the lease. Individual tenancy contracts are therefore the principal source of the parties' rights and obligations, and the starting point for resolving any disputes. However, tenant and landlord associations in these countries are very weak and have a small membership; many people who depend on rental housing do not have access to legal counsel when preparing the contract, and, even when legislation regulating an issue is in place, the terms of contracts often remain unenforceable. Legal avenues for resolving disputes (civil litigation) are expensive, complicated, and time-consuming, and while there is legislation in place in some CEE countries for alternative dispute resolution related to residential tenancies, they too have a very limited use and impact in practice.<sup>1</sup> As a result, parties will often turn to other solutions: they introduce intermediary actors (like real-estate agents or debt-collection companies) or resort to informal (and in some cases, downright illegal) solutions. Because of the small size of the sector, these conflicts are not considered political

priority, with perhaps the exception of cases related to restituted dwellings, given their symbolic political role.

In summary, due to the structural factors shaping its development, 25 years into the transition and policy development, the PRS in CEE countries has not yet crystallised into clear and stable structures; it can be described as an amorphous sub-sector within the CEE housing regimes, evolving to this day. This makes analysing housing regimes in the region more complicated, but it is consistent with the fluid and still evolving economic and social context, and the as yet unfinished nature of the transition process.

## Housing Options for Low-Income Households

After the mass privatisation of the housing stock, large-scale public housing investments have become nearly non-existent throughout the region. Municipalities in all CEE countries have become the most important social landlords, but they receive no compensation for this task in the intergovernmental transfer system, which is a strong counterincentive to maintaining and managing their social housing stock, let alone expanding it.

As a consequence, in CEE, much of the housing stock that became dilapidated during the decades of socialism is, even in the mid-2010s, still in a poor condition, or only some of it has been renovated. These factors, coupled with continuously increasing income inequalities, mean that low-income households in post-transition EU member states can afford three housing options:

- (1) Municipal housing;
- (2) Entering the low end of PRS;
- (3) Obtaining ownership on the low end of the housing market.

As discussed above, social rental housing has become a marginalised sector in all transition countries in the CEE region. Although Eurostat (SILC) data shows a relatively large number of 'reduced rate or free rentals' in some transition countries, some of these are the result of unfinished restitution processes (for instance, in Latvia or Romania); a large



share of rentals at below market price are in the form of sub-letting only one room, or housing units let only within the trusted network of friends or family (like in Bulgaria); and there is the practice of registering private tenants as family members to avoid taxes (particularly in Croatia and Slovenia). The discrepancy between the number of dwellings reported in Eurostat SILC as ‘free or below market rent’ and the actual amount of social housing stock is often huge, and, in many cases, larger than the statistical size of the private rental market for the same country. This suggests that there is either a massive stock of very generous private landlords in CEE countries, or, the much more likely scenario, a massive amount of semi-formal rental stock, where owners report leasing a property, but do not report letting it at a market rate. As a consequence, while reliable statistical evidence is extremely hard to obtain, the number of households in need of affordable housing is much greater than the number of social housing units available in the region.

Therefore, all low-income households that are unable to obtain social housing because of the shortage have to find housing in the bottom end of the housing market, where housing tends to be of poor quality, and some substandard dwellings even have limited access to services and utilities. But the size and quality of inexpensive housing is not their only disadvantage: the further away housing is from the active labour market, the more affordable it is, which tempts many households to move to more remote areas, where they are not, however, able to find a regular source of income, and where eventually they end up trapped.

Renting a dwelling on the private market is a risky business in the new EU member states, where legal regulation is often considered unbalanced—over-regulated in some respects and under-regulated in others—and where it is hard to enforce the terms of signed contracts (Hegedüs et al. 2014). Although in most countries and most cases, a rental contract must be in written form in order to be legally valid, the majority of the market in the region operates in the informal economy (Drofenik 2015: 9; Hegedüs and Horváth 2015: 8; Hussar 2015: 34–35; Panek 2015: 9, 20). As most landlords will avoid tax duties on their rental income, contractual relations typically remain hidden. Regulations are liberal to the extent that private tenancy relations do not offer an acceptable level of tenure security, thus renting on the private market is usually only

considered socially acceptable as short-term housing (for students, young persons before establishing a family, households in temporary hardship).

The risks of home-ownership at the bottom end of the housing market seem less obvious at first, and a practical understanding of the social conditions and housing markets in the CEE is required to see their consequences. Policy support for ownership is often promoted because of the seemingly greater tenure security it provides, whereas if the risks were correctly considered, it really only reflects the disproportionate lack of security in rental housing. First, ownership is only more secure if the owner-occupants can afford it in the long run; if not, they end up trapped in debt. Second, the macro-level risk of a rigid housing market that is caused by the disproportionately high rate of owner-occupied housing is well known in the international literature (Hegedüs et al. 2011). Paired with the structural changes in transition countries, households could find themselves trapped in shrinking regions, where formerly state-supported industries went bankrupt and unemployment has been skyrocketing. The market value of housing in these regions is low and will attract the most vulnerable households that cannot afford secure housing in more prosperous areas. However, persons moving to these 'weak market' regions will be unable to find jobs and gain sustainable livelihood.

At the same time, buying a home still financially makes more sense (at least to those who can actually afford it): tenants have access to very little financial support, while home-ownership receives generous state support. Although a home-ownership bias in policy is present in most European countries, despite policy professionals' efforts to emphasise the importance of a tenure-neutral approach, the gap between subsidising renting and owning is even more striking in new member states due to their extraordinarily high owner-occupation rates, the heavy burden debt-based home-ownership places on families with modest incomes in these relatively poorer states, and the near complete lack of support available to tenants in CEE countries (again, with the notable exception of the Czech Republic).

Due to the sharp decline in the share of public housing and unsustainable new social housing strategies, the slowly but overall steadily growing PRS may play a more significant role in housing the poor and vulnerable households in post-socialist countries. In the chapter "Property

Restitution After 1990”, we indeed saw that lower-income households have higher odds to live in market renting in some countries, such as the Czech Republic, Slovakia, Estonia, or Slovenia, than the population in general. However, in most of the countries in our sample, the majority of poor and vulnerable households tend to be homeowners or public tenants rather than tenants in private rentals. It seems that only the Czech Republic represents a special case, as there the share of poor people living in private tenancy is already high and is increasing in time. The issue of poor households in substandard privately rented housing needs to be addressed by policy in many countries in the region, but, in the case of other countries, the problem may be less visible or systematic. This can be interpreted as a consequence of the size, professionalisation, and legality of private renting in the Czech Republic, and the country’s generous housing benefit system that creates sufficiently strong financial incentives for private landlords to accommodate the poor. Finally, chapter “Private Renting in Social Provision: Initiatives in Transition Countries” looked at the possibility of utilising the private housing sector to house poor and vulnerable households. In the context of residualised social housing stocks and standard owner-occupied housing that is out of reach for the lowest-income populations, policy initiatives such as Social Rental Agencies may be crucial to effectively providing affordable housing for larger segments of the population.

## **Conclusion: Can the PRS Help House the Poor?**

A slump in new housing construction and housing privatisation has been a general trend across Europe in recent decades, and this has affected transition countries even more due to the lack of investment in housing before 1989, the massive privatisation of social housing in the 1990s, and the collapse of the construction sectors after the GFC. The PRS has an essential role to play in the provision of affordable housing, an issue that is being addressed across Europe, but is moreover inevitable in new EU member states, where low-income households significantly outnumber existing social rental housing units.

The private rental market in the majority of new EU member states is volatile and unpredictable, and still lacks the kind of steady conditions and transparency required for the sector to grow. There are a number of essential structural factors that explain the amorphous nature of the PRS in post-socialist transition states:

- (1) the still evolving economic, welfare, and policy context in which the PRS functions;
- (2) the effect that the uncertain financial and legal conditions have on the choices that individual actors (households) make on both the supply side and the demand side of the PRS;
- (3) the system of incentives and the behaviour of organisational actors in the housing sector, including real estate agents, developers, municipalities, banks, and construction companies.

Still, despite the differences in their macro-level legal, social, and economic contexts, we can see a convergence of housing regimes in CEE countries with very similar trends and housing outcomes. Although the literature distinguishes between slightly different ‘varieties of capitalism’ and welfare systems, and the two largest influences of the transition period—privatisation and restitution—played out in different ways in the region, the resulting housing regimes have very similar legal backdrops, tenure structures, and challenges. The main differences that we find among housing sectors and the PRS in CEE countries can be explained by restitution, as restituted housing units remained part of the formal economy (particularly in the Czech Republic, Poland and Slovenia), unlike in most new member states where the sector as a whole is dominated by accidental landlords and operates in the shadow economy.

Although attempts were made in most CEE countries to expand the PRS, they always faced serious constraints. First, while all these attempts reacted to pressing issues—and did so in line with the ‘trial and error’ approach generally adopted to housing reforms in the region—a long-term political commitment would have been necessary to undertake the kind of strategic market-building that took place in old EU member states, where the rental sectors are large and function well. (The most ‘classic’ examples of these are the PRS in Germany and the housing

associations in the Netherlands—both of which required decades of subsidisation and institution-building.) Instead, policy-makers in CEE countries have often been preoccupied with short-term interests, without realising the social costs of leaving low-income households in inadequate housing. Second, lax regulation, sometimes contradictory legislation, and inefficient dispute resolution systems for resolving disputes in the PRS take a huge toll on society. Major changes are needed in tenancy legislation so that the sector can be involved in affordable housing provision. Third, the prevailing housing policy paradigm needs to change. To this day, most support from the state is in fact directed at middle-income households and at promoting home-ownership based on the ideology of private property. This is an understandable reaction in societies where the right to private property and incentivisation were repressed for decades. Making the CEE housing sectors more efficient, however, requires a change in the policy mindset: the focus of support should be redirected away from the middle class and the subsidising of private ownership and into targeted (social and affordable) rental programmes.

What might the role of the PRS be in post-socialist countries in the future? In the aftermath of mass privatisation, the size of the public housing sector has been reduced to just a small fraction of the total housing stock, and the number of social housing units is well below the number of households in dire need of affordable housing. Despite some efforts (and a certain level of political will, albeit often limited to rhetoric) to increase social housing, it is unlikely that there will be any significant increase in the stock of publicly owned social housing because of the fiscal constraints governments and municipalities are dealing with. Consequently, involving the private sector in affordable housing provision has become inevitable to help households in need. In these circumstances, it seems essential that the functioning of the PRS be improved. Owing to the demographic changes transition countries are experiencing, with key phenomena such as ageing, increasing out-migration, and population decrease, especially in the (semi-)peripheral 'shrinking' regions, some of privately owned housing stock could be utilised for societal purposes. Attempts to introduce public-private partnership (PPP) models in which the PRS is used as affordable housing proved unsuccessful because the subsidy requirements of such experimental programmes were beyond

the capacity—and the level of political commitment—of the governments involved. Poland's TBS is the most promising example, but the support for this model has been cut in recent years, and this model has only been modestly successful. Nonetheless, two concrete lessons can still be distilled from the PPP experience: (1) applying the cost recovery requirement in affordable housing provision would still result in below market rents, but it would also stop (or at least alleviate) the deterioration of public housing, and (2) placing the responsibility for housing provision on the local (municipal) level requires local-level income redistribution, but this cannot be done efficiently, so social housing provision must be at least partially recentralised at a higher level of national decision-making.

From what we have learned about the housing markets, and particularly the private rental markets in transition countries in the mid-2010s, it is clear that after the change in regimes in the region in 1989–1990, the PRS began to grow slowly and gradually. This process continued unevenly, and gained momentum in the 2000s, when stable economic growth and an upturn in incomes and housing construction dominated the pre-crisis years in the CEE region, which was consistent with wider global trends. However, in most former socialist countries, private renting remained largely an informal sector. Despite a discouraging policy and subsidy environment in most of the region, the fact that the sector continued to grow indicates that there is a strong social demand for flexible housing options, a demand that was underpinned by the socio-economic restructuring processes of the transition. While a number of important and promising measures were adopted in some CEE countries, in most cases, public policy has so far failed to address this demand in substance. For most countries in the region, decision-makers have yet to consider the wider social and economic implications of having a responsive and consistent housing policy and following such recommendations as promoting a tenure-neutral approach, improving the affordability and stability of rental housing, and creating a balanced legal context for actors in every form of housing tenure.

## Note

1. For instance, every municipal court in Estonia is able to establish separate Lease Committees, but only the City of Tallinn actually exercises this right, and when it has done so, the committee has proved of limited practical use (Hussar 2014: 94). In Poland, mediation and other amicable reconciliation mechanisms are technically available, but they have little practical impact (Panek 2014: 193).

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