

SUMMARY

This book is a similarly structured territorial extension of „Housing Policies in the European Union“ (ISBN 3-9500417-4-5), published by the author in late 2000.

The previous study covered all EU-15 countries, while the present one contains a survey of five central eastern European countries: the Czech Republic (CZ), Hungary (HU), Poland (PL), Slovenia (SI) and Slovakia (SK), which together with the three Baltic countries Estonia, Latvia and Lithuania, as well as Malta and Cyprus, joined the European Union on May 1, 2004. The book's main emphasis is on presentation and evaluation of national housing policies and their respective instruments.

Findings presented in this volume are based on available literature indicated in the bibliography, as well as on a variety of journals and other publications, on statistics from official and other sources, and also on some 50 extensive interviews with local experts conducted by the author during various trips to these countries.

This study consists of three parts:

Part A presents a general overview covering all five countries, pointing out their similarities and differences in housing market and housing policy development. This straightforward text is intended for readers interested in general information on the topic, without distraction by too much detail.

Part B contains five extensive monographs, one on each country, presenting detailed information as well as statistical data from official and other sources. As Parts A and B are structured in the same way, more detailed information on any passage in Part A can be readily located in Part B.

Part C presents theoretical analyses of several housing policy areas and instruments, which used to and continue to be important in these former socialist countries.

In addition, this part contains a number of conclusions based on the country monographs and on theoretical analysis; it also presents the author's suggestions for optimisation of national housing policies.

Parts A and B

1 BASICS

Transformation of former centrally planned to market-oriented economies mostly occurred by the application of some „shock therapy“. Only Slovenia adopted a gradualist transition policy, which only opened the national economy step by step to participation by foreign investors. All CEE countries suffered from initial recession but were able to stabilise their economies by the mid-1990s. Since the beginning of this century, all five countries have registered above-average growth rates. Currently, per-capita GDP at purchasing power parities ranges between 45% and 70% of the EU-15 average.

In spite of recent reductions, in some CEE countries, national inflation rates still exceed those of the EU-15 countries, which makes early access to the euro-zone more difficult. However, the gravest problem is unemployment, which particularly in Poland and Slovakia affects a large part of the economically active population. However, due to widespread activity in the informal sector, this problem may seem larger than it actually is.

2 HOUSING POLICIES 1945 - 1989

Shortly after the second world war, the CEE countries came under communist rule. Due to massive war damage to the housing stock, particularly in Poland, early post-war emphasis in housing policy was on repair and rebuilding. In an effort to mitigate severe housing deficits and also as an expression of the then dominant ideology, private rental housing was converted into public rental housing. Mostly, this transfer took the form of expropriation/nationalisation without adequate compensation. Poland was an exception in this regard, because formal property rights of private landlords were maintained, but allocation rights and application of rent regulation were in the hands of local state entities. In Slovakia, due to the traditionally large share of owner-occupied family homes, nationalisation only concerned a relatively small number of private rental dwellings in larger cities.

According to communist development principles, the industrial sector was given highest priority in multi-annual economic plans, while housing policy played only a minor role. In essence, housing needs of urban populations were to be covered by direct state rental housing supply. Only in rural areas were private family homes left untouched, the respective property rights, however, being

limited to an „entitlement to permanent personal occupation”.

Creation of large industrial complexes, partly in new industrial cities, required accommodation for the families of industrial workers and other employees. State development of new housing was concentrated in large housing estates. From the 1970s, housing estate construction employed panel and other prefab technologies. Overall, the 1970s and 1980s represented the peak of public housing production. However, as not even the large volumes of new dwellings could keep abreast with rising housing demand, private initiatives to produce additional housing became more and more recognised and supported by the state.

Private housing construction of single-family homes in rural areas often lacked a title to the land or even a building permit. During the construction process, households not only had to finance a large part of cost, they also had to procure hard-to-get construction materials and to provide a good deal of self-help labour, usually combined with labour by the extended family and neighbours.

In urban areas, private housing initiatives focused on co-operative production of multi-family housing, to which later occupants had to contribute a considerable share of cost. Within the limitations of the dominant ideology, (partly) privately-financed housing construction was the only admitted form of private capital investment.

During socialism, the officially accepted tenure forms were state, enterprise and co-operative rental housing as well as co-operative owner-occupied dwellings and private single family homes.

Earlier than other CEE countries, Hungary attributed greater importance to private initiatives in multi-storey housing production and to cash contributions by future occupants.

On the other hand, in Slovenia, direct state provision of housing benefited state employees only, while a much larger number of rental dwellings was produced and operated by municipal housing associations and, above all, by self-managed enterprises. In this country, access to housing mainly depended on employment. However, materials for construction of single-family homes were obtainable without major difficulties.

1 HOUSING POLICIES 1990 - 2005

Dissolution of the former socialist system took place within a very short time span and represented the most important political event affecting CEE countries in the second half of the 20th century. This political transformation was based on the assumption that only fundamental restructuring of the economic system would allow the creation of a more efficient system of production and distribution. Most leading politicians of the time were convinced that, above all, one had to create the essential framework for optimal market operation and specifically, for the housing market. Market forces would then automatically lead to adequate housing provision for the population, or would at least contribute to achieving this aim.

In the process of comprehensive political restructuring, the traditional expensive subsidy systems of the socialist era were rapidly dismantled. With this, during the early 1990s, housing policy lost much of its former importance. More urgently, property rights and responsibilities had to be redefined. As part of comprehensive democratisation, previously centralised housing policy was to be devolved to local authorities, which were charged with a number of other important responsibilities, too.

One of the earliest and most important measures to be applied in the framework of housing policy decentralisation was the transfer of housing stocks owned by the state, by state institutions, state-owned enterprises, or by self-managed enterprises, to the local municipalities. These rental dwellings were later to be sold, preferably to sitting tenants, thus enlarging the owner-occupied housing sector. Privatisation of public rental dwellings was implemented partly (HU) or fully (SI) via a limited-time right to buy or, without such a right to buy, over longer periods of time.

With privatisation of former rental housing, the state wanted to be relieved of its former responsibility for providing the recurrent subsidies needed to operate large public housing stocks.

However, in the remaining municipal housing stocks, due to operating costs usually exceeding regulated rents, the difference must still be covered by the public sector, but now partly by municipal budgets.

A housing policy area initially exempt from modification was rent regulation in the public rental housing sector, where low rents prevailed. Based on general political considerations, in particular the need to help households cope with often pain-

ful economic adjustment, rent regulation remained in force in this sector. Thereby, many low-income households were in a better position to adjust to otherwise rapidly rising prices.

An inheritance from the socialist era were private rental dwellings that had been expropriated or nationalised without proper indemnity. Under the re-instituted right to private property, a principle guaranteed in the new constitutions, these properties were to be returned to their former owners or their heirs. Hungary was the only exception in that it did not proceed with general restitution of expropriated residential buildings. Tenants in restituted buildings continued to enjoy their previous tenancy rights, which included low regulated rents. This provoked a hard-to-solve conflict between the interests of those tenants and restitution landlords.

All this showed clearly that the state could not abandon the field of housing policy. However, the fundamental approach of new housing policy was that, essentially, every citizen was responsible for his or her personal housing situation, but the state would provide support in cases of need. From the mid-1990s, most CEE countries adopted several important housing policy acts concerning owner occupation, housing savings systems, mortgage lending, housing benefit, creation of a limited-profit housing sector and various other subsidy instruments such as interest subsidies, preferential loans and tax allowances.

As an early step, governments had to decide on compensation of banks' pre-1990 capital losses due to extremely low housing loan interest in the past. This support proved very expensive, indeed.

Then, over several years, most CEE countries developed a full array of housing financing instruments, comprising annuity and interest subsidies for mortgage loans, grants and preferential loans.

Based on earlier Austrian/German examples, three countries established Contract Savings for Housing systems, which met with great interest by savers, attracted, above all, by generous premiums.

In this context, four countries (CZ, PL, SI, SK) decided to create national State Housing Funds, which were to ensure implementation of state housing programmes independently of annual state budgets. Initially, their funding came from privatisation revenue and state transfers.

Further, all countries decided to develop a housing benefit system as a support for low-income households but, so far, due to limited funding, the scope of these programmes has remained modest.

Last, but not least, several countries granted quite generous tax benefits for mortgage loans.

2 HOUSING MARKETS

Before 1990, income spreads in socialist countries were relatively narrow. Therefore, differentiation in housing stocks was spatial rather than social. In rural areas, single-family homes predominated, while in cities, standard housing consisted of flats. These dwellings were mostly state or co-operative rental housing. In addition to rather small urban flats, many city residents had a small a recreational garden dwelling in a suburban area, which allowed growing fruit and vegetables, too.

Within the socialist economic system, the development of housing markets was restricted. New housing production was either developed directly by the state or controlled and financed by it. (Slovenia, with its self-managed enterprises was somewhat different.) Allocation of available new dwellings was not based on price mechanisms but on state allocation policy. On the other hand, in all countries, there was a fairly developed secondary market for used dwellings. Particularly in Hungary, even before transformation started, market transactions for existing dwellings were quite common. Partly, housing transactions consisted in illegal sub-letting of public rental dwellings in exchange for under-the-table payments.

As an early effect of socio-economic transformation in CEE countries, the income spread widened considerably. Consequently, during the first transition years, private housing developers concentrated on lucrative construction of single-family homes for the new wealthy strata. However, rising incomes were not primarily invested in better housing, since individual priorities were often directed at other consumption sectors.

Differentiation of incomes put considerable gentrification pressure on some urban areas, where lower-income households were forced to leave. On the other hand, better-off households began to move away from public rental housing, which had accommodated all strata of society before, whenever the location was not attractive or the physical condition of buildings was not up to standard.

Income development during transition showed more pronounced regional differences. Housing demand in the capitals and other large cities became much stronger, while demand for office space in urban centres caused additional conversion pressure. In the cities, far-reaching privatisa-

tion of former public rental housing allowed some buyers to make high profits from resale, if they had another dwelling (e.g. a former secondary dwelling) where they could move.

Prices for new owner-occupied housing in CEE countries still remain below western European figures, but in Slovenia, housing prices have come closer to EU-15 levels. The same is true for the private rental-housing sector, small as it still may be. In areas of strong housing demand, prices for existing dwellings approach those for new dwellings, while in areas of less demand, prices for used dwellings are much lower.

So far, national housing markets in CEE countries are not very transparent and residential mobility remains relatively low.

National finance structures and institutions have developed vigorously in the most recent years, above all because of increasing competition due to EU accession, which made the former very high interest rates come down.

Housing production experienced a pronounced setback during the early 1990s but then recovered steadily towards the end of the century. This is mainly the result of private construction initiatives.

Housing stocks in CEE countries characteristically comprise very large numbers of small flats, mostly built in large-scale housing estates during the 1970s and 1980s. The technical quality of these dwellings is quite modest, though.

Regarding sheer numbers, the housing stocks of the Czech Republic and of Hungary seem quite adequate, but floor area per person is still limited. Housing conditions in Poland and Slovakia leave even more to desire.

On the other hand, while amenity levels have markedly improved during the last few decades, deficient municipal infrastructure in rural areas remains a major and costly problem.

Finally, unwanted cohabitation remains a pervading feature of CEE housing conditions.

3 EVALUATION

Before 1990, housing policies in socialist CEE countries were based on quantitative targets and high subsidies. Eventually, they proved economically inefficient.

Following the political turnaround, housing policy lost much of its earlier splendour. Leading politicians were convinced that the market would take over earlier state functions on the housing sector.

Some housing policy instruments that were left in place, such as rent regulation, acted as social buffer in view of the burdens of market-oriented restructuring of the economies. Consequently, the earlier combination of state paternalism and faith in its benevolence among the population continued to some degree.

With decentralisation of housing policy and devolution of this responsibility to the municipalities, most local authorities were initially not up to the task, due to lack of expertise and administrative capacity. Therefore, they were hardly able to formulate consistent housing policy strategies or corresponding housing programmes.

Limited expertise and unfamiliarity with the newly acquired responsibilities made many local authorities adjust local physical planning to private interests instead of co-ordinating them in the public interest.

A re-emergence of state housing policy in the mid-1990s was hampered by the distribution of this policy area among several ministries as well as a state housing fund.

Later development of a full array of housing policy instruments, which were then repeatedly modified, created insecurity among market participants regarding the legal framework of their activities. In some countries, antagonistic party politics made consensus-building in housing policy impossible. Lobbying by various housing-sector interest groups contributed to this situation.

In spite of manifest maintenance deficits accumulated in all these countries, most subsidy schemes were directed at new housing construction.

Definition of target groups related to particular housing policy instruments was unclear and therefore public expenditure was often ineffective. Control over allocation of subsidies was repeatedly absent, leading to widespread abuse.

The design of subsidised financing instruments was often poor and inefficient but, at the same time, overly generous. The same applies to some regressive tax allowance schemes providing an incentive for housing investors but, at the same time, causing large amounts of foregone tax revenue.

Overall, there is a certain lack of periodic monitoring of actual housing conditions, an essential requirement for the definition and effective implementation of any rational housing policy.

Part C

1 ANALYSES

Theoretical analyses refer to the following housing policy areas and instruments:

- *Public and limited-profit rental housing*

Need and reasons for these housing sectors; financing of new municipal housing; allocation of public and limited-profit housing; differences between the two sub-sectors

- *Rent regulation*

Reasons for and function of rent regulation in housing sectors subject to it; design of rent regulation and its effects

- *Privatisation of public rental housing*

Motivation and framework for privatisation by sitting tenants; prices and effects on housing markets

- *Restitution of expropriated residential buildings*

Historical background of expropriation and restitution; volumes and effects, particularly on sitting tenants

- *Renovation of housing stocks*

Accumulated maintenance deficits, particularly in prefabricated buildings; urgent renovation needs and possible financing schemes

- *Contract Savings for Housing*

Operation of *Bausparkassen* and other contract savings systems; liquidity during build-up of *Bausparkassen*

2 CONCLUSIONS

Definition of an active housing policy can only materialise through a process of political balancing of diverging opinions. Minimal consensus on primary goals of a rational housing policy is essential.

Fundamentally, housing policy instruments may take the form of taxation, regulation, activation, competition and subsidisation. These groups of instruments differ substantially with regard to their requirement of public funding.

Design of housing policy instruments should take into account household incomes and strive for maximum economic efficiency.

In the opinion of this author, main instruments of a rational housing policy should include the following:

- adequate taxation of land, ensuring thrifty use of this increasingly scarce resource,
- need-based financing support for the acquisition of owner-occupied housing but without recurrent loss of public capital,
- long-term financing system for the construction of municipal rental housing and its subsidy-free operation and
- effective means-tested housing benefit for all housing tenures.