Housing Privatisation in Central and Eastern Europe:
From Policy to Practice

Abstract:

The focus of this paper is on the ‘meaning’ and comparative overview of housing privatisation reforms in Central and Eastern Europe in 1990s. The special emphasis is on policy formulation and implementation and the legislative and regulatory support for private property rights, owner-occupation, tenure change, and market institution building. Housing privatisation is an urban phenomenon as most of the public rented housing was built in urban areas during the socialist period. Therefore, the effects of these reforms are mostly visible in large Central and Eastern European cities. The paper describes the similarities and differences between Central and Eastern European countries during the process of transition as a consequence of historic ‘path dependent’ process and, current socio-economic development, institutional framework and cultural choice - emphasising ‘convergence-divergence’ debate in 1990s.

1. Introduction:

The working paper represents a comparative overview of housing privatisation reforms in Central and Eastern Europe in 1990s focusing on policy formulation and implementation, setting up a model for evaluation of policy effectiveness.\(^1\) Central and Eastern Europe is often perceived as a homogenous region due to foreign dominance in the past and, ideology of ruling regimes (e.g. socialism) - despite differences between countries. The study also reveals similarities and differences in housing policy reforms between these countries due to specific 'path dependent' process which is inherent in the past (pre)socialist development – i.e. demographic, socio-economic, institutional and cultural aspects of policy development and, during the process of transition from socialist to market based housing provision. Political changes that occurred in Eastern Europe\(^2\) at the end of 1980s and (re)introduction of parliamentary democracy and market economy have

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\(^1\) This working paper represents an overview of the larger PhD thesis of which forms a part. The objective of the thesis is to achieve better understanding of housing privatisation process in relation to the political and economic reforms in Central and Eastern Europe in 1990s and to evaluate the impact of policy reforms on efficiency and equity of urban housing markets.

\(^2\) Before political and economic changes at the end of 1980s 'Eastern Europe' comprised of Albania, Bulgaria, Czechoslovakia, East Germany (GDR), Hungary, Poland, Romania and Yugoslavia. In 1990s the region has been re-addressed as ‘Central and Eastern Europe’ with further differentiation on ‘Central-East’ European countries of Czech Republic, Hungary, Poland, Slovakia and Slovenia and, Balkan or ‘South-East’ European countries of Bulgaria, Romania, Albania and other republics of the former Yugoslav Federation: Croatia, Bosnia and Herzegovina, Serbia and Montenegro. Baltic states - Estonia, Latvia and Lithuania are also included in Central and Eastern Europe, despite their geographic location in North-East Europe and several decades of existence under Soviet Union. In the case of former East Germany, Yugoslavia, Czechoslovakia and Baltic states respectively, geo-strategic change is also important. East Germany was integrated into Federal Republic of Germany and, consequently Western Europe and European Union (EU) in 1990. The Federation of Czech and Slovak Republics (Czechoslovakia) was peacefully separated in January 1993 in Czech Republic and Slovak Republic (Slovakia). As a consequence of the war which started in 1991, the Yugoslav Federation has been disintegrated in Slovenia, Croatia, Bosnia and Herzegovina, Macedonia and, Federal Republic of Yugoslavia, consisting of Serbia and Montenegro (see Figure 1).
led to important economic and institutional reforms which required the privatisation of firms, housing and land, and decentralisation of decision-making from central to local government, and individuals. An important part of the transition from centrally planned to competitive market system involves also the housing sector. The former socialist Eastern European countries were for several decades governed by distinctly different ideological principles with extensive state control over property rights and the provision of housing (i.e. infrastructure provision, land acquisition, construction and allocation of public rented housing, rent control, as well as more indirect measures of control like urban planning, setting standards, building codes, determining the level of consumer subsidies and property taxes). These characteristics were part of the egalitarian philosophy that certain essentials such as education, health and housing, should be provided as a constitutional right of citizens (Ambrose, 1991).


Housing policy reforms that occurred in Western European countries in 1980s were influenced by neo-liberal ideology, privatisation rhetoric and budget constraints. These reforms have also an impact on housing policy formulation in Central and Eastern Europe in 1990s, especially recommendations from international organisations (e.g. World Bank), and housing experts (economists) from different Western European countries. The other important factors for housing policy formulation and implementation in particular Central and Eastern European country was: (i) the ‘state-of-the art’ of housing provision at the end of 1980s and, the impact of the ‘East European’ housing policies on institutional structure during the socialist period; and (ii) macro-economic situation of the particular country in 1990s and, local political and decision making process regarding housing versus privatisation of industry.

Taking these factors in consideration further analysis of housing privatisation reveal both similarities and differences between Central and Eastern European countries in the process of ‘transition’ as well as their divergence from the theoretical housing privatisation model recommended by the World Bank (1990).
2.1. ‘Heritage of the (Socialist) Past’: From ‘State’ to ‘Market’ Provision

Similar to system changes after the Second World War, in 1989/90 common forces again led to disintegration of the socialist systems. With the exception of the former Yugoslavia, which for the historic reasons followed different political and economic development than other Eastern European countries, the post-second World War (1945-89) socialist history of the region had have its origin in one common feature - the influence of Soviet Union. Eastern Europe was usually perceived as a homogenous region without respect to its diverse history, culture, institutional structure or level of demographic and socio-economic development in individual countries (Turner et al. 1992). Therefore, this led to a perception that within the similar framework, i.e. socialist ideology, political and economic system, etc. - a common 'East European Housing Model' has developed with similar outcomes in all countries. This model describes a common elements of the socialist housing provision (i.e. state ownership of the means of production, priority of planning over market mechanisms and centralised decision-making process) based on a logic behind housing policy development, which established the 'rules' of behaviour of the state and private sector, the state institutions, and the various social and economic groups (see Hegedüs and Tosics, 1992; Hegedüs et al. 1996, Hegedüs and Tosics, 1996). These elements were applied to most countries in varying degrees, but they were never fully developed because of a number of factors that constrained the ability of governments to put the principles fully into practice. The main constrains were shortage of finance for provision of new public rented housing, high costs of control over private transactions and, existence of the informal market process (Clapham, 1995; Hegedüs and Tosics, 1996; Tosics, 1998). They varied from country to country and at different time periods (see Figure 2).

Financing, construction and allocation of public rented housing were the most important instruments of socialist housing policy. Public rented housing was built almost

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A concept of 'East European Housing Model' was first put forward by Hungarian researchers Hegedus and Tosics (1990; 1992) as a paradigm to explain main principles of socialist housing provision in Eastern Europe after the Second World War.

The term public rented housing describes non-owner-occupied housing (e.g. state, social, co-operative, employers-related, institutional etc.) with different role of state institutions in ownership, financing, construction and distribution i.e. provision of housing.
exclusively in multi-dwelling buildings in system-built housing estates in large cities and industrial centres. Allocation of public rented housing was determined according to the criteria of 'need' and 'merit' and officially recognised space standards (e.g. floor space per person). The rents were subsidised and controlled by the state to ensure that they were generally affordable (e.g. 3-6 percent of household income), but they did not cover the costs of maintenance and renovation. As a result, the former socialist housing system was neither efficient, nor equitable. This refers particularly to persistent housing shortages, overcrowding, long waiting lists, and deferred maintenance of multi-dwelling buildings stock and, since 1980s growing dissatisfaction with monotonous high-rise housing estates. As far as distribution and allocation of housing is concerned the priorities in access to public rented housing were given to political party officials, bureaucrats and/or technocrats, or employees of the strategic industrial sectors and enterprises rather than workers or disadvantaged social groups (for more details see Alexeev, 1988; Daniel, 1983, 1985; Hegedüs and Tosics, 1983; Szelényi, 1983, 1987; etc).

Despite the official support for public rented housing many governments in Eastern Europe directly or indirectly supported owner-occupation which was a dominant form of tenure at the end of 1980s, especially in Bulgaria (92 percent), Hungary (77), Romania (76) and the former Yugoslavia (80 percent) (see Table 1). Comparative housing analysis at the end of 1980s (see Sillince, 1990; Telgarsky and Struyk, 1990; Turner et al., 1992) also revealed differences in housing systems of these countries as a consequence of economic constraints in individual country, housing policy and institutional development during the socialist period. These studies highlight the ‘divergence’ from the ‘East European housing model’, especially in the case of Hungary and the former Yugoslavia with implementation of ‘marketisation’ reforms from 1960s onwards. The shortage of investments for construction of new public rented housing and, financial support of co-operatives or owner-occupied dwellings resulted in legal support for home ownership that culminated with privatisation reforms in 1990s. This process known as 'marketisation'...
(e.g. re-privatisation or commodification) was associated with reduction of direct state intervention in the provision of housing.\(^6\) Marketisation was controlled by state institutions without support for profit-oriented housing sector. Marketisation forces only regulated the distribution of housing subsidies towards owner-occupation as a response to economic crisis since 1970s in the name of ‘economic efficiency’ (Szelényi, 1989), and therefore, for fiscal rather than political reasons. De-regulation in the private housing sector did not occur until the end of 1980s when property rights have been changed as a result of a shift in ideology and political system.\(^7\)

The ‘East European Housing Model’ is important to understand the similarities between the countries due to ideological and political forces of ‘convergence’ under socialist regime, but also differences that evolve from 1960s as a result of economic constraints including the role and significance of the housing sector in particular country.\(^8\) Therefore different institutional structure of housing provision, significance and experience with ‘marketisation’ reforms during the socialist period and, macro-economic (starting) position at the beginning of ‘transition’ reforms in 1990s - were important elements to be considered in analysis of the similarities and differences between the Central and Eastern European countries in the process of housing privatisation in 1990s, with similar ideology and political orientation of the governments.

2.2. Housing Reforms in Western Europe: From Welfare to Individual Rights

Housing privatisation is not a specific phenomenon only in Central and Eastern Europe. Since the end of 1970s housing policy reforms in Western European countries have been focused on shift from welfare (state) provision to individual rights. More than any other

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\(^6\) According to Turner et al. (1992) ‘marketisation’ represent a form of housing provision in which individuals or a social group act in their own ‘personal’ interest while privatisation means a change in allocation of resources when individuals or a social group act to generate profits. Marketisation did not only mean expansion of owner-occupied and/or the reduction of public rented housing in new construction, but also a shift in state subsidies towards provision of home ownership (Tosics, 1987).

\(^7\) The important reason of ‘marketisation’ reforms was that the state could not solve the (urban) housing shortages exclusively from budgetary resources and it needed the participation from the private sector (Hegedüs, 1988; Hegedüs and Tosics, 1990).

\(^8\) While Hungary and Yugoslavia experimented with institutional and financial (state) support for owner-occupied housing, the situation in other countries only differed s as regarding the institutional structure of provision of public rented housing in urban areas and, the share of public rented in total housing stock.
aspect of the modern welfare state, housing involves a complex mix of state and market activity. The physical form of housing, its location, financing, social significance and, even its personal meaning all bear the imprint of housing legislation and administration. Both the demand and supply of housing are in different ways, influenced by government policy (Balchin, 1996, Doling, 1997, Harloe, 1995; Kleinman, 1996; Malpasse and Murie, 1994).

The specific features of the ‘European’ housing model despite the differences between the individual countries are: greater propensity of governments’ intervention for welfare purposes and, the existence of large scale non-profit housing institutions, particularly in rented sector. But since the end of 1970s the role of the welfare state has been ‘reconsidered’ from the re-emergence of the neo-liberal ideology and political orientation of the (new) conservative governments (see Doling, 1997) that emphasise government failure and the scope for markets to achieve efficiency and equity goals. As a result of both economic and political changes, market influences and effective demand started to play an increasing role in housing provision and a fundamental shift away from comprehensive housing policies towards market-based solutions.

The term ‘privatisation’ - often refers to shifting of control and policy solutions from the state and politics to the market and to civil society, or state withdrawal from involvement in housing provision towards a greater reliance on the private sector. Privatisation also involves a number of functions, e.g. ownership, production, management, financing and regulation and can be understand as a process, not a settled arrangement with the impact on (Ball and Grilli, 1997):

(i) decline in housebuilding by offset in increase in expenditure on improving housing stock;
(ii) switch from production to consumption subsidies in order to reduce public expenditure (i.e. government support for home ownership through tax allowances, rent subsidies for low income households);
(iii) greater market orientation in housing provision by encouraging owner-occupation and/or market oriented policies towards public (social) rented housing and reduced controls on private renting.
Housing (privatisation) reforms in Western European countries represent a rather complicated outcome of market forces, specific local political factors and institutional structure of housing provision and, EU macro-economic requirements for integration.

At the implementation stage housing privatisation can take a different form in different countries. For example, in Britain, privatisation has been most evident in the rented sector, with action in all three policy spheres - e.g. freeing up the private sector though deregulation; reducing subsidies to public housing, encouraging the greater utilisation of private finance, and enabling housing transfer from the public to the private sector. In Sweden, by contrast, the measures used are restricted to de-financing, but they apply to all tenures and to both production and consumption. The Netherlands has also concentrated on definancing, although the focus of privatisation has been on production (Doling, 1997; Teeland and Siksiö, 1994; Whitehead, 1993). Therefore, privatisation consists of multiple and differentiated strategies or forms which are influenced by diversity of housing systems in particular countries.\(^9\)

Despite differences between the countries in the process of housing policy formulation and implementation, both Harloe (1995) and Kleinman (1996) agree that the common themes in recent housing policy development in Western European (or EU) countries are: greater role of markets in production, allocation and financing; promotion of owner-occupation; a switch from new building to renovation; cost-effectiveness and private ethos in operation of the public rented sector; targeting subsidies, selectivity and marginality and deregulation of housing finance markets. The differences between countries are based on their institutional and political characteristics while common trends are driven by structural and economic changes and the impact of EU integration. Historic circumstances, political forces, and institutional structures in each country determine the shape of specific policies, emphasising that policy development is 'path

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\(^9\) Comparative housing analysis that emphasise similarities and differences between Western European countries are Ball and Grilli (1997), Balchin (1996); Barlow and Duncan (1994), Boelhouwer and Heijden van den (1992a, 1992b), Doling, (1997), Kemeny (1995), Kleinman (1996). The most influential in attempt to identify patterns of dissimilarity of distinct welfare (housing) regimes is perhaps Esping-Anderson (1990) and Barlow and Duncan (1994), including Kemeny’s (1995) classification of housing markets on home-owning (dual) and cost-rented societies (unitary).
dependent” (Kleinman, 1996). Despite common trends in housing policy development the differences between the countries are evident in tenure structure which developed until specific housing policy regimes and structure of the housing markets.

Ideological change came to be the most significant factor in 1990s with decisive impact on housing policy reforms in Central and Eastern Europe. The overview of housing privatisation reforms reveals both similarities and differences between these countries in policy formulation, implementation and outcomes that are also influenced by policy and institutional development during the socialist period and external pressures from international organisations (World Bank/IMF and EU). Central and Eastern European countries are (again) expected to converge under the influence of market reforms. Since 1994 EU requirements for political and economic stability, harmonisation of legislation and institution building/strengthening that are expected to be implemented in the similar way in all Central and Eastern European countries applying for the fully-fledged membership of the EU are another ‘push’ towards convergence in housing policies and systems. Despite strong pressures to achieve ‘convergence criteria’ housing provision in Europe has been characterised by differentiated housing policy regimes, especially regarding their institutional structure.

The following overview of housing privatisation reforms in Central and Eastern Europe in 1990s confirms the hypothesis that policy formulation and implementation is ‘path dependent’ with respect to different socio-economic and institutional structure, cultural preferences and - geographical proximity of EU countries on formation of specific housing policy regimes as: Baltic, Central-East and South-East European types, with Hungary and Slovenia (again) as intermediate category.

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Continuity is the underlying theme in the ‘path dependent’ process. It is borrowed from the transactions cost economics by David Stark (1992) who added the notion of institutional and the high initial costs of change to describe ‘transition’ and economic transformation of Eastern Europe. In the context of housing privatisation reforms the ‘path dependence’ represents ‘prolonged informality from the last period of socialism (1980s) as simulation of the private property relations in the absence of the legislative framework and market relations’ and dense personal networks in the socialist economy. This also explains the differences between Central and Eastern European countries in the process of housing privatisation and overall transition.
3. Housing Privatisation in Central and Eastern Europe: Policy Formulation and Implementation

With the demise of the socialist ideology and disintegration of the Soviet Union at the end of 1980s, the geo-political situation in Eastern Europe has changed. Reunification of Germany in October 1990 followed by independence of the Baltic Republics (Estonia, Latvia and Lithuania), disintegration of the former Yugoslav Federation since 1991 and 'velvet divorce' between the Czech and Slovak Republics in January 1993 - are the most important geo-strategic changes with effects on the formation of the Central and Eastern Europe. The most important political goals at the beginning of transition was the introduction of pluralist democracy, multi-party elections, establishment of market institutions and, since 1994 prospective membership of the EU. Transition from a centrally-planned to market oriented economy includes the introduction of competitive market-economy, privatisation, control over inflation and budget expenditure, monetary reforms, legislative framework, company, labour and competition law, external trade and price liberalisation, foreign investments, and - property rights reforms. But similar requirements for stable macro-economic environment and interactive ‘open’ economy did not produce the same results in all Central and Eastern European countries (i.e. inflation, rate of GDP, external debt, unemployment, etc.) that is an outcome of their different size, socio-economic characteristics and geographical proximity to EU markets (see Table 2).

The political and economic changes in Central and Eastern Europe had also an effect on transformation of housing systems. Housing reforms emerged as a direct response to ideological and political changes and, a failure of the East European housing system (Jaffe et al. 1995; Hegedüs and Tosics, 1992). The political commitment towards private property was lacking before 1989 even if the legal and financial basis has been created through marketisation reforms since 1960s in Hungary or the former Yugoslavia (Fabian, 1995). Therefore two most important elements of the former socialist housing system have been under direct influence of reforms: (i) property rights - in order to increase the capacity of the housing sector to perform efficiently - to encourage housing construction and improve maintenance; (ii) housing finance reforms including, reduction (or collapse)
of state subsidies. Any form of collectivist approach or participation has been viewed with suspicion because of a legacy of the former socialist system.

3.1. Objectives, Aims, and Instruments

The shift in ideology and private property rights and, increasing preferences towards owner-occupation became the most important issues in political debates over housing policy reforms in Central and Eastern Europe at the beginning of 1990s. As a result the long-term objective of housing privatisation reforms is the development of a market-oriented housing system that is consistent with the overall political and economic reforms (Telgarsky and Struyk, 1990; Turner et al. 1992). Specific aims of housing privatisation are to increase government budget, economic efficiency and performance of the housing market and, to ensure social equity (Jaffe et al. 1995; World Bank, 1990). The primary tasks are the development of policies, institutions and regulations that will improve efficiency of the housing market and reduce subsidies, which in turn will have positive effects on the overall economy (Renaud, 1990; Struyk, 1996; Telgarsky and Struyk, 1990; Turner, 1991; World Bank, 1990).

There was a general belief among governments and policy-makers that market mechanisms are a more efficient way of housing provision in order to remove shortages that existed under the previous (socialist) system and central planning and, that private market will create incentives for owners to maintain their property. There was also a hope that privatisation of housing will reduce the budget expenditure and provide some revenues for central and local governments. Therefore, privatisation of housing is perceived as economically attractive and politically acceptable solution with psychological implications as a move or commitment towards market economy and democratic society. Owner-occupied housing is regarded as the most desirable form of tenure, and the most efficient way of achieving market mechanisms in production, distribution and maintenance of housing. Housing privatisation is expected to provide more efficient and equitable markets, irrespective of differences that existed during the socialist period.
Since the end of 1980s policy makers in Central and Eastern Europe were openly seeking advice and technical assistance from international organisations and experts in the context of fiscal and economic difficulties at the beginning of transition. It became clear that despite differences between these countries in socio-economic development, institutional structure and culture, it appeared to be an agreement about the necessary elements of reforms for a successful transition from socialist to market-oriented economies. A 1990 joint assessment by international agencies and housing experts (economists) were similar in their sets of recommendations. Control over budget deficit and inflation was *a priori* requirement for international financial support. Restructuring of housing finance system and property rights became the most important elements of (privatisation) reform as an economically attractive and politicial. The most influential were the following World Bank recommendations (1990):

**Box: Housing Reforms Recommendations:**

**Property rights reforms:**
- Reform of ownership and property rights
- Introduction of market institutions
- Legal framework
- Functioning of housing markets
- Registration of property rights, transactions, prices
- Information system, planning and development process

**Reduction of state subsidies:**
- Gradual increase of rents in public rented sector close to market values
- Use of price mechanism in the allocation of housing
- Capital and maintenance costs, improved services
- Safety net strategies/protection of low income groups/ housing allowances
- Lower budget expenditure/ inflationary pressure

**Public rented sector:**
- Transfer of ownership from state to local authorities
- Sale of public rented housing (on market prices)
- Rent increase, introduction of housing allowances,
- Improved maintenance and management

**Production reforms:**
- To eliminate the privileged status of former state construction enterprises in housing production
- To improve the efficiency of construction industry
- Reforms of the land ownership
- Land registry, regulation, information, urban planning system

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11 Internationally Monetary Fund (IMF), the World Bank, OECD, EBRD, UNECE and Reports by the CIA, the Economist, the Wall Street Journal, Business Week, etc.

Finance reforms:
- Provision of loans (at market rates) for construction and purchasing of owner-occupied housing

Maintaining demand:
- Housing needs and demands information/assessment/monitoring
- Provision of mortgage financing

Housing market institutions:
- Enabling role of the state (setting regulations, guidelines and co-ordination of policies)
- Development and strengthening of efficient housing market institutions
- Complementarity of policy reforms and co-ordination between institutions

Comprehensive housing reforms strategy:
- A long-term comprehensive housing policy


3.2. Policy Formulation and Implementation

Housing privatisation reforms in 1990s are different from 'marketisation' reforms during the socialist period (i.e. Hungary, Yugoslavia), because of the changes in ideology and property rights. Despite similar objectives and aims as a consequence of external factors i.e. neo-liberal ideology, political reforms, economic constraints, requirements from the World Bank and/or IMF for budget expenditure, etc., - housing privatisation in Central and Eastern European countries in 1990s focuses on following instruments:

(i) Property rights reforms
(ii) Decentralisation of ownership from the state to local authorities
(iii) Restitution
(iv) Sale of public rented housing
(v) Co-operatives and condominiums
(vi) Housing management reforms
(vii) Reforms of the rental sector
(viii) Reforms of construction and maintenance enterprises
(ix) Housing finance reforms

The general tendency has been to reduce government budget expenditure and to shift responsibilities for housing policy to local and/or individual level (Hegedüs et al. 1996). Promotion of home ownership, perceived as the most 'desirable and efficient' form of

13 The process of housing privatisation in Central and Eastern Europe is described in Baross and Stryuk (1993) (Bulgaria, Czechoslovakia, Hungary, Poland, Russia, Slovenia); Struyk (1996) (Russia, Armenia, Estonia, Bulgaria, Czech Republic, Hungary, Poland, Slovakia, Slovenia); Clapham et al. (1996) (Germany, Hungary, Russia, Bulgaria, Poland, Czechoslovakia, Slovenia); Balchin (1996) (Poland, Czech Republic, Hungary, Croatia, Slovenia); Jaffe et al. (1995) (Estonia, Latvia, Lithuania). For comparative overview of housing policy reforms with impact on housing markets see Clapham (1995); Hegedüs et al (1996); Hegedüs and Tosics (1996); Chapman and Murie (1996).
tenure, became the most important objective of privatisation. Although Central and Eastern European countries began housing privatisation at different stages of the transition reforms, each has included three principal strategies to develop an owner-occupied sector: decentralisation of state housing to local authorities, the sale of public rented housing to (sitting) tenants below market price and reform of the rented sector i.e. non-privatised dwellings. During the first phase of transition (1990-1995) ownership transformation or tenure change was the most important element followed by reforms of the financial sector, construction industry and rented sector reforms. The next stage is institutional building and strengthening, introduction of comprehensive housing strategies and information mechanisms.

3.2.1. Property Rights Reforms

The (re)definition of property rights is the key element of housing reforms in Central and Eastern Europe, especially in relation with the functioning of the private market. The ideological change at the end of 1980s abolished the long-standing discrimination against private ownership and entailed creating a legal and financial system in official support of private sector housing provision. The legislation abolished the restrictions over the number of properties that can be owned by individuals and permitting property transactions at market prices. The property rights reforms occurred also in Hungary and Slovenia where the concept and experience of private property ownership was more familiar due to 'marketisation' reforms and large owner-occupied sector not only in rural, but also in urban areas (Hegedüs et al. 1993; Szelényi, 1990). In countries where private ownership was restricted to rural and city-peripheral areas the property law was introduced in order to permit the private ownership of individual dwellings in cities. In April 1994 the property law on 'ownership of apartments and non-dwelling places' in the Czech Republic was changed to define a status of housing co-operatives and the introduction of personal ownership of dwellings in multi-dwelling buildings which were not in private ownership before (e.g. 'tenant' co-operatives) (Eskinasi, 1995). In the Baltic states and Slovenia the relations between local citizenship and property rights are equally important after independence in the case of restitution, sale of public rented housing or
purchasing of property (Jaffe et al. 1995; Pichler-Milanovich, 1997; Turner and Victorin, 1996).

3.2.2. Decentralisation of Ownership

The other common pattern across Central and Eastern Europe during the first phase of housing privatisation with the emphasis on ownership transformation or tenure change was the decentralisation or (re)allocation of ownership of 'state' housing to local authorities and/or other institutions as legal owners (e.g. enterprises, public institutions, organisations, etc.). The predominant view was that decentralisation of responsibilities to local government would improve the provision of services according to local needs and consumer preferences and, to improve efficiency of budget expenditure (Struyk, 1996). But decentralisation of ownership of housing has placed enormous financial and management pressures on local authorities when the rents and/or sales of property depend on coherent legislation and central-local government relations as well as the ability and political will of local authorities to introduce the necessary changes (USAID, 1993).

In Hungary the ownership of state-owned housing and public utility companies was transferred to local authorities in 1991 (Fabian, 1995; Hegedüs at al. 1993; Hegedüs et al. 1996). Local authorities became officially responsible for rent setting, introduction of housing allowances, the sale of public rented housing, maintenance\textsuperscript{14}, and introduction of local taxes (Hegedüs et al. 1993). The first democratic government in the former Czechoslovakia in 1990 abolished state involvement in the housing sector and the Czech and Slovak federal republics respectively, became officially responsible for formulation and implementation of new housing policies. The local authorities became owners of state-owned dwellings built after 1948 and, of the older housing stock where no former owner applied for restitution (Kingsley et al, 1993; Kingsley and Mikelsons, 1996). According to some estimates only 28 percent of state-owned housing was transferred to local authorities in the Czech Republic (Musil, 1995). The local authorities could

\textsuperscript{14} Local government was initially responsible for determining the rules of the sale of its public housing stock, selection of housing, especially in the case of buildings of historic importance. In July 1993 the central government introduced compulsory sale of public rented housing requiring local authorities to sell dwellings to all sitting tenants willing to purchase - excluding the previous option of local authorities to chose (or 'prohibit') which part of its public housing stock is for sale (Fabian, 1995; Hegedüs and Tosics, 1994; Hegedüs et al. 1996).
officially decide whether to sell this housing stock or to keep it as social housing (Eskinasi, 1995; Slootweg, 1994). The situation was similar in Poland when local authorities took over the ownership of state-owned housing in 1991 (Herbst and Muzio-Weclawowicz, 1993; Muzio-Weclawowicz, 1996). In Bulgaria, Local Government Administration Act (1991) emphasised the role of local authorities as owners of state owned housing which became also directly responsible for housing management and maintenance. The situation was different in the former East Germany where local authorities were legal owners of 35 percent of the total housing stock even before unification with West Germany. Local authority housing stock was transferred to housing companies with local authorities as major shareholders (Potter, 1994).

In Slovenia decentralisation of public rented housing meant not only shifting the responsibilities from central to local authorities, but rather demise of 'public property' ownership and legitimisation of institutional (legal) owners of public rented housing: e.g. relevant ministries or other (state) institutions, local authorities, industrial enterprises (i.e. for their employees), Pension and Disability Fund (e.g. purpose built dwellings for pensioners or veterans from the Second World War) and other public institutions and organisations.\(^{15}\) Local authorities became only the legal owner of the 'solidarity' housing (i.e. built for low-income household since 1970s) and 'general peoples property' (i.e. confiscated or nationalised after the Second World War) or dwellings allocated to their employees.

Many local authorities have no resources available for maintenance of their property. There is also a dilemma how to use assets efficiently and fulfil the role as social provider. Local authorities do not have enough power for rent or local property tax setting. The administrative efficiency of housing reforms could be achieved if local authorities have more decision-making power whether to privatise or not, which housing to offer for sale, and on which price. But in reality local authorities did have the effective control over the

\(^{15}\) In Slovenia (as in other republics of the former Yugoslavia) public rented housing was owned, acquired and allocated by: public enterprises (employers) for their employees (around 70 percent of the public rented stock in 1991), 'self-managing housing interest communities' organised at the local level for the provision of social housing for low-income groups, municipalities and other (state) institutions (e.g. republic or federal agencies) for their employees. Part of the municipal housing stock has been obtained by nationalisation of some private pre-Second World War property, known as 'general peoples property' (Mandic, 1990, 1994).
housing stock of which they became responsible as a reason of lack of financial resources and political experience over negotiations with the central government.

3.2.3. Restitution

The existence of restitution is a unique feature of housing privatisation in Central and Eastern Europe, compared to the experience in the Western Europe. Apart from Russia where restitution has not been an issue, in all other countries individuals have had the opportunity to seek the return of property nationalised or confiscated by the communist governments after the Second World War. If return of property is not possible in kind, compensation is usually payable. Restitution only applied to the older housing stock built before the 1950s, usually in inner-city areas of larger cities. The restitution must precede any process of the sale of public rented housing (Baross and Stryuk, 1993; Clapham et al. 1996). Restitution has been the most profound in the Czech Republic, Slovenia and Estonia.

Housing confiscated and/or nationalised after the Second World War could be returned to the original owners or their heirs, if prior ownership was legally documented and the claims submitted in the case of the Czech Republic before the end of September 1991 (Kinglsey et al. 1993) and Slovenia until the end of 1996 (Pichler-Milanovich, 1997; Sendi, 1995). The restitution law is restricted to those possessing local citizenship and/or permanent residency. If restitution was not possible in kind (i.e. if property was demolished or rebuilt), financial compensation was available instead. According to Musil (1995) around 10 percent of housing was restituted in the Czech Republic, while in Slovenia about 3 percent (Pichler-Milanovich, 1999). Restitution of housing was the most important in large Central-East European cities, especially in the old inner-city districts. It is estimated that about 20 percent of the total housing stock in Prague was affected by restitution ranging from 75 percent in the central city districts to about 35-65 percent in other inner-city districts (Eskinasi, 1995; Sýkora 1993; 1994). The process of restitution in Poland entitles former owners to seek the return of their property in kind, or through government issued bonds and vouchers, rather than cash compensation. Restitution process is long and owners of private rented housing stock are expected to receive full
control over their property after five years (Herbst and Muziol-Weclawowicz, 1993). In the former East Germany restitution was also instituted in kind rather than through compensation. About 20 percent of housing companies’ (local authorities) stock (about 600,000 dwellings) has been legitimate for restitution. Dwellings could not be sold or renovated until the process of restitution is solved. Eligible former owners were defined as those dispossessed between 1933 and 1945 and those who had lost or left behind their property after 1949. The expropriation of property between 1945-1949 was deemed legal and irreversible as it took place under a recognised legal framework. Housing in the former East Germany was less nationalised than in other Central and Eastern European countries with a mixture of ownership and tenure types from 1949 to 1990 (Smith, 1996). In Estonia restitution law was introduced in June 1991. Until 1993 approximately 20 percent of the claims were processed. The delay is attributed to development of land registry necessary for the transfer of ownership. Restitution is usually not in kind, but the compensation is given in the form of ‘vouchers’ (Jaffe et al. 1995; Turner and Victorin, 1996). Restitution of property in Bulgaria started at the end of 1991 with a three year period allowed for submission of claims before enforcement of the act (Hoffman and Koleva, 1993; Tsenkova et al., 1996). In Hungary, the government decided (1990) not to implement restitution ‘in kind’ because of the difficulties to determine who was the lawful owner of the property. The alternative was a system of ‘compensation certificates’ which could be used for purchasing of state assets, e.g. businesses, housing, land, etc., or shares in privatised companies. The upper limit of Ft. 5 million (approximately $45,000 in 1995) in certificates has been set per each claimant, despite the fact that in many cases the value of the property was higher. The exception to this type of restitution was the possibility for religious and charitable organisations to physically re-claim the property that will be used for religious, educational, health and social services (Douglas, 1997).

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16 In 1989 housing tenure structure in East Germany (before unification) was the following: individual owner- occupation (20.8 percent), private rented (27.7), state ownership (34.7) and co-operatives (16.6) (Marcuse and Schumann, 1992; Smith, 1996). Therefore, rented sector constituted 79.2 percent of the housing stock which was higher than in West Germany (60 percent) including smaller public rented sector (15 percent) (Smith, 1996). Private rented sector was state-controlled in terms of rent-setting, tenancy rights, allocation, if not state-owned (Hegedüs and Tosics, 1992).
In principle restitution is a simple procedure, but in reality a highly complex process and often quite slow. A time period of several years for claims to be registered has been laid down in each country, although it takes much longer for claims to be settled. It is not always easy to establish whether a claim was made by the 'rightful’ owner, whether the property was (un)lawfully taken from the original owner, or what was the original physical condition and value of the property. Compensation may be paid in various forms such as government bonds, certificates, in cash or in kind i.e. the return of the physical property *per se*. Also, tenants in restituted public rented housing could become tenants of a private landlord. Officially they have some security of tenancy and in Slovenia they can still exercise the 'right-to-buy' the dwelling. However, the rents are still controlled by the state at below market prices. This is an important obstacle over the use of property that is usually located in the most attractive and accessible inner-city locations. From the equity objective the goal of restitution is to compensate the original owners for injustice of the previous socialist regime and, to provide them with the stake in the process of privatisation (Jaffe et al. 1995). Restitution has been introduced not only for social justice/equity reasons, but also in respect of economic efficiency in relation with the costs of required maintenance and rehabilitation of the older housing stock. In many cases new owners have inadequate resources and they could not raise sufficient funds from the banks to invest in housing rehabilitation. Many of them were forced to sell the property even bellow the market value due to deferred maintenance (Eskinasi, 1995; Sýkora, 1993; 1994). Restitution also has the disadvantage for the state of not generating any new budget revenues as a result of financial compensation. Many (new) owner inherited a 'negative' equity in the case when the cost of housing rehabilitation is higher that the market value of property. This is particularly difficult, as long-term mortgage funds are still not available for rehabilitation purposes. Therefore, restitution is likely to create a conflict in the housing market between the (new) owners and the tenants over the use of property at one side and, between them and central and local authorities over regulations and finances. Restitution is considered by most experts and housing officials as a policy failure without bringing the expected efficiency or equity in the performance of the housing market (see Table 3).
3.2.4. Co-operatives and Condominiums

The transformation of co-operatives into condominiums is another aspect of housing privatisation reforms in former East Germany, Czech and Slovak Republics, Poland or the Baltic states, where a relatively large co-operative sector developed during the socialist period. Co-operatives were mainly a way of saving direct state investments by encouraging households to invest their own resources in obtaining the dwelling (but not the ownership rights). Co-operatives became obvious targets for privatisation as members have already contributed towards housing costs in the past for access to this type of housing that was almost exclusively built in urban areas. In these countries owner-occupation was mainly related with single-family houses at the city-periphery or in rural areas. It is obvious that a lack of experience of private ownership in multi-dwelling buildings in cities is a legal obstacle in these countries in comparison with Hungary and the former Yugoslavia where co-operatives existed only during the process of construction.

In 1992 the federal law in the former Czechoslovakia gave the co-operative tenants the right to acquire legal ownership of (their) dwellings after payment of the remaining debt to co-operative. The initial regulation required all tenants in the co-operative to participate in this process. Prospective purchasers could also become 'joint-owners' of the common areas in the building, according to proportion (size) of their own dwelling in the building (Clapham, 1995; Kingsley and Mikelsons, 1996; Slootweg, 1994). After separation of the former Czechoslovak Federation, the new law on ownership was introduced in April 1994 in the Czech Republic that further specified the status of co-operatives into 'association of owners of dwellings in the building'. The legislation also permitted the sale of individual dwellings within the co-operative to a third party. Co-operatives that have not yet paid-off the construction loan have been given a new low interest loan for the remaining debt (Eskinasi, 1995; Slootweg, 1994). The legal status and organisational structure of housing co-operatives have taken the form of condominiums rather than 'real co-operatives' (Eskinasi, 1995; Musil, 1993, 1995; Sýkora, 1996). The similar legislation on co-operatives was proposed in Poland in 1993. The co-operatives in the former East Germany have retained their legal status after re-unification.
with West Germany (Potter, 1994). Under the new legislation (1993), housing co-operatives should transfer from 'collective' institutions into 'private ownership' of tenants. In the case where there is not enough demand from tenants to purchase their dwelling the co-operatives could sell part of their stock to third parties in order to meet the 15 percent sale's target and to evict some tenants from membership of the co-operative (Potter, 1994, Smith, 1996). According to the new legislation in Estonia (1995) co-operatives could change their status in 'housing associations' (regardless of how many sales have taken place) in which the tenants and owners will be members of the 'association' together with a local authority as a legal owner of the building and land. The other proposal suggests the local authority as a joint-owner of the building (and land) together with the housing association as a legal owner which could enable a more efficient housing management in future. Housing association therefore, represents a 'share-holding company' rather than classical Scandinavian type of 'co-operatives'. This transfer of ownership is sought as a more market oriented solution in the process of privatisation of 'socialist co-operatives' (Jaffe et al. 1995; Turner and Victorin, 1996).

3.2.5. The Sale of Public Rented Housing

The sale of public rented housing is just one aspect of housing privatisation reforms but its importance in terms of effectiveness has overshadowed the other reforms in the first phase of transition (1990-1995). The sale of public rented housing to sitting tenants in 1990s represents the most effective instrument of housing privatisation through transfer of ownership rights to sitting tenants below market prices. The most important political debate was related with the following questions: (i) responsibility for setting rules and regulations of the sale (state/local authority/other institutions); (ii) the eligibility of tenants to purchase public rented dwelling (compulsory or selective sale) and (iii) the sale price (low price vs. market price); (iv) sale of housing to sitting tenants or other individuals and/or private companies; (v) the utilisation of the sale revenue (e.g. new construction, renovation, etc.); (vi) regulations on re-sale of privatised housing, etc. Policy debate mainly focused on the price strategy at which dwelling should be sold to sitting tenants - low price based on (historic) construction costs or, higher price according to estimated market value. Most of the countries adopted low price strategy as opposite to market price recommended by international organisations (e.g. World Bank) and housing
experts at the beginning of reforms. The sale price was reduced to compensate (new) home owners for the deferred maintenance and, personal investments required from the tenants for access to and, the cost of repair/maintenance of the dwelling.

Early sale of public rented housing occurred in Bulgaria and Hungary already in 1990 followed by Slovenia, Russia, and Lithuania in 1991. The second phase included Estonia (1995) and Latvia (1996) followed by the Central-East European countries - Poland, Czech and Slovak Republics and, the former East Germany where the sale of public rented (local authority) housing did not proceed with the same pace. In Hungary, Bulgaria, Slovenia it was a compulsory, 'top-down' state intervention transferring the ownership of individual dwellings to sitting tenants. In these countries public rented housing was not a dominant sector in housing provision and, experience of ownership has been strong even during the socialist period. In Poland, Czech Republic and Slovakia the sale is developing on a slower pace under responsibility of local authorities or co-operatives. In Baltic states Estonia, Latvia and Lithuania the situation is similar, but with their own local specificities.

Table 4: The Sale of Public Rented Housing in Central and Eastern Europe

<table>
<thead>
<tr>
<th>Phase</th>
<th>Country</th>
<th>Year</th>
<th>Share (%) of public rented housing in total housing stock before privatisation (1990/1)</th>
<th>Share (%) of public rented housing in total housing stock after privatisation (1994/5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>I*</td>
<td>Bulgaria</td>
<td>1990-91</td>
<td>15</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>Hungary</td>
<td>1990-95</td>
<td>22</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>Slovenia</td>
<td>1991-94</td>
<td>33</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>Albania</td>
<td>1991-93</td>
<td>35</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Romania</td>
<td>1991-93</td>
<td>21</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Lithuania</td>
<td>1991-93</td>
<td>51</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>Russian Federation</td>
<td>1991-93</td>
<td>67</td>
<td>43</td>
</tr>
<tr>
<td>II</td>
<td>Estonia</td>
<td>1993-95</td>
<td>65</td>
<td>56 (10)**</td>
</tr>
<tr>
<td></td>
<td>Latvia</td>
<td>1995-96</td>
<td>64</td>
<td>54</td>
</tr>
<tr>
<td>III</td>
<td>former East Germany</td>
<td>1994-2003</td>
<td>35</td>
<td>15**</td>
</tr>
<tr>
<td></td>
<td>Poland</td>
<td>1993-</td>
<td>30</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>Czech Republic</td>
<td>1993-</td>
<td>30</td>
<td>28 (20)*</td>
</tr>
<tr>
<td></td>
<td>Slovak Republic</td>
<td>1993-</td>
<td>27</td>
<td>19</td>
</tr>
</tbody>
</table>

* Not enough data available for other republics of the former Yugoslavia; ** Expected

Source: Struyk, 1996; Hegedüs et al. 1996.

The sale of public rented housing has been most effective in Slovenia, Hungary and Bulgaria where the average selling price was on average only 10-15 percent of the market
value (Douglas, 1997; Pickvance, 1994; Stanovnik, 1994, Tsenkova, 1996). In the Baltic countries, households were given vouchers, which they could use to buy their own dwelling or other property (Turner and Victorin, 1996). In Russia privatisation of the state and municipal housing stock was based on almost 'cash-free' transfer of dwellings to the sitting tenants (Renaud, 1995; Struyk, 1996). In Poland, Czech and Slovak Republics, the lack of national housing policy and decentralisation of state housing to local authorities has left the decision to local governments to sell their public rented stock (Baross and Struyk, 1993; Struyk, 1996). The only country to take a high price strategy was the former East Germany, where funds from the German government have enabled rehabilitation of the existed housing stock to take place before sales (Potter, 1994; Smith, 1996).

In Hungary state owned housing was first transferred to local authorities which were officially responsible for the sale of public rented housing until 1994, when state introduced the compulsory sale enableing sitting tenants to purchase the dwelling. The sale price was usually determined from the physical condition of the dwelling depending on when renovation was last performed (Douglas, 1996; Fabian, 1995; Hegedüs and Tosics, 1994). For older dwellings that have not been renovated in the past 15 years, the sale price was set at 15 percent of the (estimated) market value, whilst the discount for dwellings in multi-family buildings which were rehabilitated at least five years prior to sale the price was set at about 40 percent of the market value. Purchasers paying in cash could receive a further 40 percent discount on the selling price, or to pay in installments with down payments as little as 10 percent of the selling price repaying the remaining sum within 35 years at a fixed interest rate of 3 percent. This financial arrangements represent a very strong incentive to purchase (Fabian, 1995; Hegedüs et al. 1993, 1994, 1996; Pickvance, 1994). In 1993 this Housing Act was revised defining the sale price at maximum 50 percent of estimated market price, with a possibility to sell individual dwellings to sitting tenants without prior agreement of other tenants in the buildings or local authority. As a result most tenants bought their public rented dwelling on average 3-10 percent of the market value, while in Budapest, the capital city, tenants

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17 The interest rate on loans from (state) savings bank in 1990 for purchasing of owner-occupied dwelling was 25 percent. In Hungary the ratio between the average sale price (with maximum discounts) and household monthly income was 1 to 4 (Hegedüs et al. 1994).
paid on average 9 percent of the market value of their dwelling (Douglas, 1997; Fabian, 1995). The situation was similar in Bulgaria where over 50 percent of public rented housing were sold to sitting tenants in the largest cities in 1990-91. Compulsory, low sale privatisation resulted in only 8 percent of public rented housing in the total housing stock in 1992 (Hoffman and Koleva, 1993; Tsenkova, 1996). It was estimated that the sale price was approximately 10 percent of the market price (Tsenkova, 1996).

In Slovenia it was precisely in housing that 'public' ownership - the symbol of collectivism and 'self-management' was first abolished (Mandic, 1994, Mandic and Stanovnik, 1996). In October 1991 Housing (Privatisation) Act was adopted in the Parliament not only granting the 'Right to Buy' to sitting tenants in public rented housing, but also with its comprehensive regulations completely changed the institutional structure of housing provision. But the main instruments of housing privatisation were however, conducted to tenure change, i.e. the sale of public rented housing to sitting tenants and restitution of property. The low-cost sale of the public rented housing was the most important and effective policy instrument as a demand subsidy to increase the rate of home ownership. Book-value of the dwelling was determined on the basis of housing quality (i.e. central heating, quality of bathroom, kitchen, position of dwelling in the building, garage, elevator, etc.) and year of construction. Location was not considered as a factor in determination the dwelling's book value, which represented only about 50 percent of the market price (Stanovnik, 1994). The full discount price of up to 60 percent of the book-value (if paid in cash) represented only about 10-15 percent of the market price in 1991 (Mandic and Stanovnik, 1996, Pichler-Milanovich, 1997). As a result the demand for sale was higher than originally envisaged which resulted in 88 percent of home ownership in 1994 (from 67 percent in 1991) - one of the highest in Europe (Mandic, 1994; Stanovnik, 1994; Verlic-Dekleva, 1994). The national rate of sale was 67 percent of the eligible stock offered for sale, while in the capital city of Ljubljana, 75 percent was sold to the sitting tenants (Pichler-Milanovich, 1997).

The fastest and most complete sale occurred in Romania and Albania. In urban areas in Romania, approximately 80 percent of the public rented stock were privatised between 1990-92. Most of the remaining state-owned housing stock has been in the process of
restitution and is expected to be transferred to former owners or sold to sitting tenants by the end of 1990s. Albania privatised almost 100 percent of its state-owned housing in 1993. In Russia the process of privatisation of public rented housing was almost free of charge (Struyk, 1996). By the end of 1994, 32 percent (10 mil.) of the previously state-owned housing was transferred to sitting tenants. In the 50 largest cities, over 50 percent of the housing stock are now in private ownership (Renaud, 1995; Struyk, 1996). There were more privatised dwellings in Moscow (35.5 percent) than in St. Petersburg (18 percent). The pace of privatisation decreased in the 1995 because of the poor quality of the remaining housing stock, and perceived cost of future maintenance, rehabilitation and property taxes (Kosareva et al. 1996). In Baltic states - Estonia, Latvia and Lithuania - privatisation of housing has been implemented using certificates (e.g. vouchers). The system of vouchers applies both to restitution and to privatisation of other property, not only housing. If a household did not have enough vouchers to purchase (its) dwelling, the difference could be paid in cash. The voucher scheme also included the right to purchase a share of common building space, a building and/or a land attached to building (Jaffe et al. 1995). In Lithuania the privatisation was largely completed by the end of 1993 with approximately 80 percent of the public rented housing being sold. The sale has taken place at very low prices with 20 percent of the housing purchased by households' savings, and 80 percent with vouchers. The low interest rate credit (4 percent) on 20 years was available with the 20 percent down payments required. The sale of public rented housing to sitting tenants in Estonia was possible until April 1995. After that time vouchers could be used to purchase any other building land or dwelling, which was initially sold, provided it is not subject to restitution. In Latvia, the sale of dwellings with the use of vouchers has not been implemented before 1994, following the restitution process and resolving the land ownership issues. The privatisation process has been similar to Estonian model allowing the possibility for purchasing of public rented dwellings that have not been sold to sitting tenants, or restituted (Jaffe et al 1995; Turner and Victorin, 1996).

In the former Czechoslovakia, at the beginning of reforms local authorities were not in a position to sell their housing stock to the tenants because the law and regulations did not permitted them to do so. The establishment of a 'condominium' law was required in order
to sell individual dwellings to sitting tenants. After separation of Czechoslovak Federation, Slovakia passed the new law in July 1993 followed by the Czech government in May 1994. In Slovakia the sale price was set at a low level (based on the original cost of construction discounted by 2 percent per year thereafter) (Kingsley and Mikelsons, 1996). Many local authorities have postponed the implementation of this law while lobbying for the change that would bring them more income from the sales. In the Czech Republic the tenants in local authority housing were obliged first to form a company or association (i.e. condominium), to which building is sold, in order to obtain the reductions from the original sale price. These reductions could range from 40 percent in the case of traditionally constructed building for up to 80 percent in system-built panel housing estates. Local authority, depending on the size, location and quality of building sets the reduction for each individual building. The Czech law allows local authorities to determine the sale prices, how many and which houses to sell (Kingsley and Mikelsons, 1996). Local authorities must keep at least 20 percent of the total stock in their ownership. In the case of Prague, the city council as a legal owner of public rented housing must approve the transfers from individual local authorities to private owners (Eskinasi, 1995; Kingsley and Mikelsons, 1996). Tenants were given a four year period to make a final decision, but their registration was required before June 1992. In some cases local authorities were waiting for the new 'condominium law' which was introduced in 1994 in order to sell individual dwellings (and not only buildings). The sale price of local authority housing in the Czech Republic is low and related with the historical construction costs and the age of the building and, not to the current construction costs or market value of housing (Slootweg, 1994).

In 1990 in Poland the previous sale of state-owned housing practically stopped when local authorities became legal owners of these housing and took inventory of the property to assess its value. The Law on Ownership (1995) enables local authorities to select the property which is to be sold, but with restrictions to setting prices usually bellow their market value (Herbst and Muziol-Weclawowicz, 1993; Muziol-Weclawowicz, 1996). According to this legislation enterprise-owned buildings could transfer (even free of charge) the ownership of the building to other parties (e.g. local authorities, co-operatives, condominiums). As in the Czech Republic and Slovakia the ownership and legal status of
'building' is more important than individual dwellings in the process of sale. The experience of housing privatisation has differed between cities. In some cases discounts were offered (particularly) for older buildings, and some cities permitted installment sales. By the end of 1994 about 12 percent of the eligible housing stock was privatised (Muziol-Weclawowicz, 1996). In the former East Germany central government offered to reduce the debts of housing companies (e.g. local authority housing) and co-operatives if they privatise at least 15 percent of their housing stock by the year 2003. Some housing companies have started to sell part of their stock to sitting tenants even before the privatisation programme, but the initial results were not high. In the period of 1991-92 the sales represented only 0.8 percent of the housing companies' stock due to the high sale prices (Potter, 1994). However, funds from the (West) German government had enabled renovation of existing rented stock to take place before sales. Housing companies and co-operatives can in principle decide about which dwellings to sell and in which localities. Housing companies were obliged to give priority to sales to sitting tenants in 1994-95, and only to consider sales to third parties as a secondary option (Potter, 1994).

As a result of tenure change Central and Eastern European countries have a lower share of public rented dwellings in total housing stock than other (Western) European countries (see Table 4). For example, the change in tenure has been remarkable in countries such as Slovenia, Bulgaria, Hungary where prices were set low enough (average 10 percent of the market value) to create a high demand for sales where more than half in the size of the public rented sector was sold. The situation was different in Russia, where despite the very low (or none) sale prices, more than 40 percent of the public housing stock was not sold to sitting tenants, due to low quality of housing and perceived cost of rehabilitation. In Estonia, Latvia, Poland, Czech Republic, Slovakia and the former East Germany the sale of public rented housing was delayed mostly due to the problems of property rights over buildings, legal status of 'co-operatives' and individual dwellings in multi-family buildings in urban areas, as well as uncertainties about the obligations and advantages of ownership, low rents, strong tenants rights, an undeveloped housing market, and/or the poor quality of the stock.
There are many similarities between Central and Eastern countries in the process of sales of public rented housing but also differences, especially in relation with the role of the institutional owners of public rented housing (i.e. state, local authorities, co-operatives, enterprises), and the legal status and ownership of individual dwelling in multi-family buildings. Privatisation of local authority and co-operative housing (e.g. Poland, Czech and Slovak Republics respectively and the former East Germany) as the most important institutions in housing provision is significant as opposite to privatisation of individual dwellings in Slovenia, Bulgaria, Hungary. Dissimilarities also appears in respect of: (i) political and economic importance of the sale of public rented housing *vis-à-vis* privatisation of industry; (ii) compulsory 'top down' policy as opposite to selective sale of the housing stock; (iii) sale of individual dwellings versus whole buildings. The effectiveness of sale of public rented housing also depends on the macro-economic conditions of the country and local purchasing power of households. The initial low sale price of public rented housing (e.g. book-value) was related with the quality of housing and not to the income of tenants or location of housing in the city. In the case of Slovenia the sales revenue was important for enterprises (i.e. the most important institutional providers of public rented housing) at the time of independence (June 1991), and lost of the export markets in the former Yugoslavia. At the same time introduction of the new currency (tolar) at the end of 1991 was also important factor in the political decision about the terms of sale of public rented housing (Stanovnik, 1994).

Therefore, the sale of public rented housing has been important from: (i) the ideological point of view (i.e. 'stake' in the new system), (ii) financial (i.e. to improve market efficiency and government budget), and (iii) equity (e.g. distributional equity and potential market value of housing) and was legally and financially supported by the state through the low sale price policy. Housing privatisation have created large privately owned multi-dwelling housing markets throughout Central and Eastern Europe. In order for these markets to develop to their full potential, owners must improve the technical and structural conditions and the quality of their buildings through major repairs and rehabilitation.

**3.2.6. Housing Management Reforms**
In Central and Eastern Europe private property has been perceived as a more efficient way of housing maintenance and, from equity position it represents a value and financial security for the owner in the new system. Households who were able and willing to buy their public rented dwelling have been rewarded with ownership of what is sometimes a valuable asset at a low price, but have also taken the responsibility for housing maintenance and rehabilitation. Public rented housing in multi-dwelling buildings has been privatised by transferring ownership of individual dwellings together with the interest in the common property (e.g. the roof, stairways, foundation, mechanical and structural systems, etc.) of the building which in some cases include the land. Legal aspects of property rights and ownership regulations are important for defining the role and responsibilities of owners in management of multi-dwelling buildings. At the beginning of housing reforms the new owners receive property rights but not an adequate control over management and maintenance of their building\(^\text{18}\) which remain under the state or local authority responsibility until an association of owners is formed. Not all countries have completed the task of defining the legal framework and clarifying responsibility for housing management, although they have been looking for the inspiration from 'condominium law' in the USA (Banks et al. 1996; Clapham, 1995).\(^\text{19}\) The registration of the owners' property is recorded in land registry or cadastral office, while the registration of the owners' association is under authority of the court system or a special office responsible for registering legal entities such as non-profit associations or business companies. The legal document must be prepared by the owners which acts as a contract between the owners, setting out their individual and collective rights and responsibilities, including financial responsibilities to the association, and to comply with and adopt the rules of the association (Banks et al. 1996).


\(^{19}\) Three legal issues are fundamental to the proper functioning of condominiums: (i) association to which all owners are required to belong; (ii) the association must act as a legal entity; and (iii) registration of the property and legal authority of the association.
In Poland and Hungary, owners' associations are required in all privatised buildings. In Slovakia, on the other hand, according to the law, the establishment of owners' association is an option, not a requirement. The other option is for each owner to enter into an individual contract for maintenance services, which in practice usually mean the continuation of services by public maintenance companies. Under the current Hungarian condominium law the association is not a legal entity and therefore, it has no authority to borrow for large repairs or renovation. In condominiums, all maintenance or renovation work must be approved by a majority of members. In order to obtain bank loans, agreements must be negotiated with each individual owner in a building and the property is used as security for a mortgage loan. In Poland the law is not clear on whether the association is a legal entity in order to preserve the association status as a civil rather than commercial association and, to protect creditors by assuring that individual owners are liable for debts of the association (Banks et al. 1996).

According to Struyk (1996) Slovenia is a leader in implementing housing management and maintenance reforms. In Slovenia the privatisation aim of 'improved economic efficiency' refers particularly to maintenance of the existing housing stock (Mandic, 1994; Pichler-Milanovich, 1997). The Housing Act (1991) requires the dwelling owners in multi-family buildings with more than 10 dwellings, of which more than two are owner-occupied, to form owners' association (e.g. condominium), and sign the legal agreement defining relationships, rights and responsibilities of individual owners and, of owners association. The second step, according to this law is to form 'self-managing' associations or to choose the company, which will look after housing management of the building.\(^{20}\) The Housing Act (1991) also defines the main obligations of housing managers and specification of management activities. Housing management companies could be also members of the professional association at the Slovenian Chamber of Commerce and Industry. This organisation prepared the 'Catalogue of Housing Management Services,' a manual which represents professional guidelines to improve their know-how, performance and efficiency. Decision about changing the use,

\(^{20}\) After 1991 municipal maintenance enterprises have been reorganised and/or privatised and a large number of new companies emerged, competing for management contracts. Housing manager could be any officially register physical or legal entity for providing management/maintenance services. They are usually selected by the owners' associations on the basis of their proposed 'cost-effectiveness'.
improvement and rehabilitation of the multi-dwelling building was originally required from all individual dwelling owners. The change of legislation in 1995 allowed decision to be made by the majority (e.g. over 50 percent) of owners whose share represent more than half of the total value of the building. This law also requires owners association to register within the court system. The Land Registration Act (1995) is the obligatory requirement for all property to be registered by the year 2000 imposing penalties and sanctions in the case of deferred action (Pichler-Milanovich, 1997)\(^2\).

The most important problem of owners associations is that not all owners in multi-dwelling building are prepared to co-operate and participate in decision-making process with regard to management/maintenance activities. The consequence of the low-cost sale of public rented housing in e.g. Hungary and Slovenia has resulted in different household's willingness and ability to invest in housing maintenance and rehabilitation. Housing maintenance is currently efficient only in better part of the housing stock with real prospects for market returns in the case when dwelling is sold after renovation of the building.

### 3.2.7. Reforms of the Housing Rented Sector

Low rents, poor maintenance and high levels of tenants' dissatisfaction in public rented housing were some of the inefficiency problems of the housing sector in the former socialist Eastern European countries. Housing reforms in 1990s also include rent increase and introduction of housing allowances to protect low income households from the full impact of the rent increase (Hegedüs, et. al. 1994; Struyk, 1996). The utility prices have also increased as a result of a higher degree of exposure to the world markets. Rents increase has been vital to revenues as well as incentive to privatise (USAID, 1993). In most Central and Eastern European countries rents in the (remaining) public sector have increased considerably over the past few years, although the rate of increase was restrained in order to control price inflation and prevent social problems due to rising unemployment and costs of living.

\(^2\) Individual dwellings and common parts in some multi-dwelling building (or even housing estates) which used to be in 'public' ownership before privatisation were not accurately register when they were built. This is also an impediment for development of the of mortgage finance institution.
The first step in Poland, Hungary, Slovenia, and the former Czechoslovakia was the removal of state subsidy towards rents in public rented sector and their replacement by targeted subsidies or equivalent benefits for those who cannot afford to pay. Attempts have been made to increase rents to cover at least operational costs (e.g. heating, electricity, and water, waste, building repair and maintenance). In the Czech Republic rents increased by 100 percent in 1992 and by 70 percent in 1994, when already 13-15 percent of the average household income was spent on rent (Musil, 1995; Eskinasi, 1995; Kingsley and Mikelsons, 1996; Slootweg, 1994). The rents are still controlled by the central government despite the new legislation (1994) providing the incentive for increase according to some defined mechanisms related with the macro-economic situation (e.g. change in rate of inflation, real wages), quality of housing, and local economic conditions (Musil, 1995). Slovakia considered similar changes but no action has been taken as of 1995 (Kingsley and Mikelsons, 1996). According to some housing experts (Turner and Victorin, 1996; Struyk, 1996) Estonia has been the most aggressive country regarding rent increase where the rents represent almost 50 percent of the average income (Jaffe et al, 1995). In the former East Germany federal legislation increased the rents several times in both public and private sectors and reduced housing subsidies in order to cover operational costs (Smith, 1996). In Hungary local authorities became responsible for rent settings. The aim of local governments was to introduce 'cost rents' because of the low income of tenants and the poor quality of the housing stock, as opposite to 'market-rents', which were sought to be less affordable short-term solution. In some districts of Budapest, only the worst part of the housing stock was not privatised and remains in public ownership, with low-income tenants (Hegedüs et al. 1996). In Budapest, the 'operational cost' rent has been difficult to implement because of continued political opposition and the fragmentation of local authorities (Hegedüs et al. 1996). In Poland due to the housing shortage, owners of the old private tenement buildings would not be able to charge market rents until 2004. This involves a relatively small number of dwellings (i.e. about 300 000) but with strong political and legal implications in relation with the restitution of ownership rights (Muziol-Weclawowicz, 1996).
In Slovenia, the Housing Act (1991) envisages new types of rented housing (e.g. private, employer-owned, social, non-profit), rent-setting system and housing allowances. The first type of rented sector is private and employer-owned renting on a commercial (profit) basis with temporary tenancy contract. The second type is non-profit renting provided by non-profit housing associations with the provision of state subsidies (e.g. National Housing Fund) with guaranteed (non-profit rent) and permanent tenancy contract. Non-profit (rented) housing represent the second largest sector in Slovenia after home ownership providing a relatively secure and affordable tenure. The same regulatory status applies to the public rented housing which has not been sold to the tenants (about 77 000 dwellings). The Housing Act (re)introduced also social renting as responsibility of local authorities targeted to specific e.g. low-income groups (Pichler-Milanovich, 1999).

Further rent increase in the public sector is politically a sensitive decision at the time of transition, rising unemployment and economic uncertainties. However, budget constraints and administrative problems of establishing the new housing system as difficulties to estimate households' incomes for tax purposes (e.g. due to the strong 'informal economy' in some countries) are the most important reasons why housing allowance programme has been implemented rather slowly. It is also significant that housing allowances are only available in the public not in private rented sector. Poland and Slovenia were the first countries to implement housing allowances programme at the beginning of the transition process, and in Poland at the end of 1994 local authorities introduced housing allowances to cover part of the maintenance costs. At the same time in Hungary some tenants' protection has been introduced in 1990 and the 'Social Act' (1993) put a proposal for housing allowances (Hegedűs et al. 1996). Housing allowances were introduced in 1994 in the Czech Republic (Musil, 1995) and Estonia in the case when rent (utilities excluded) should not exceed more than 30 percent of the household income (Jaffe et al. 1995; Victorin and Turner, 1996). Russia also established housing allowances (1994) targeting 10 percent of household's income for rent. Two thirds of all local authorities in the Russian Federation have raised rents and established housing allowance programmes. Bulgaria and Slovakia did not have such a programme before 1995 (Struyk, 1996).
In Central and Eastern Europe housing allowance programmes typically require the household to spend 10-15 percent of the income on housing, and the allowances bridge the gap between the full rents and the household's expenditure. Despite changes only few countries have a comprehensive housing allowance programme fully operational, either because the legislation is lacking or the programme is selective targeting only few eligible households. Under the East European housing model tenants' rights were strong and protected (e.g. it could be inherited, exchanged, sold, etc.). Since 1990 there is a consensus among housing officials in Central and Eastern Europe that tenants' rights should be reduced in favor of ownership rights, but in reality it is a highly controversial issue. It was assumed that this problem will be solved as a result of privatisation (Struyk, 1996).

3.2.7.1. Private Rented Sector

Rents in the private rented sector are established according to market demand and fully liberalised in all Central and Eastern European countries in 1990s. Despite the official government support private rented sector still accounts only for 2-5 percent of the total housing stock and its mostly developed in large cities depending on the price and quality of housing. Private rented sector could almost exclusively be found in the existing housing stock, as there is little new construction developed explicitly for renting. (Struyk, 1996). Typically, the sector is dominated by large, refurbished and expensive dwellings in the most attractive city locations for better-off population (foreigners or locals) or for offices, and smaller dwellings of average or poor quality in less attractive housing stock in inner city areas and housing estates for students, immigrants and, as a temporary solution for young families. Housing is usually rented if temporarily not occupied by the owner to raise an additional income while preserving it in the family ownership for future use (i.e. children) (Struyk, 1996). Rents in private rented sector are about 10-20 times higher than in public sector, which explains why private renting is not affordable and rather small (Hegedüüs et al. 1996). As a consequence of the sale of public rented sector it is expected that private rented housing will increase in capital and large Central and Eastern European cities. In order to be affordable for local population it should be supported by government policies. Local authorities should not be given the right to regulate rents in private housing sector beyond health and safety considerations to
prevent the imposition of restrictive rent control or excessive tenant protection, but to stimulate the sector with the financial and fiscal policy instruments (e.g. tax rebates, allowances, etc.).

3.2.8. Privatisation of Construction and Maintenance Enterprises

In the former socialist countries large state construction enterprises had a monopoly over the process of housing production. They were inefficient, as their productivity was low with high costs of housing construction and consequently not affordable to large number of consumers. The privatisation of state construction enterprises has been undertaken in all Central and Eastern European countries although at varying paces and in different ways. It has primarily been regarded as an industrial rather than housing privatisation.

In the former Czechoslovakia the state construction enterprises were re-organised and transformed into smaller units before their privatisation in 1990 (Kingsley et al. 1993). At the same time new small private construction firms were establish. For example in Hungary more than 8000 new construction firms were registered in 1993 (Hegedüs et al. 1996). In Russia the entire state construction industry was privatised in 1993 under the industrial privatisation (Struyk, 1996). In Slovenia housing construction companies were subject to the same privatisation as other industrial enterprises. During the first phase of privatisation most of the large construction companies were de-centralised, re-structuring their size and organisation. This had an effect on decline in employment in construction industry from 65000 (1985) to 30000 (1995). Many former employees are now involved in housing management/maintenance activities and real estate industry. Construction industry is currently more preoccupied with infrastructure projects where the funds are available from both local and foreign resources (e.g. EBRD, EIA, etc.). As a result of restructuring of state financial subsidies in most Central and Eastern European countries housing construction has decreased while the individual reconstruction and rehabilitation activities increased (e.g. rehabilitation of restituted houses, repairs of neglected houses, etc.), especially in economically attractive large capital cities as i.e. Prague, Budapest, Berlin. Office expansion, new hotels, or rehabilitation of privatised public rented housing
have created a demand with the opportunity for new private construction companies to enter the market (Struyk, 1996).

During the socialist period the most common providers of housing services were the public maintenance enterprises operating under responsibilities of the local or city authority. They were highly inefficient and in combination with low maintenance expenditure and rents in public rented sector the result was a systematic decline in the quality of the housing stock. By privatising and transforming these large maintenance companies and making them independent, the local authorities try to promote competition and improve their efficiency. At the beginning of the transition, many (new) homeowners did not have the right to select their own maintenance company, with the exception of Slovenia. As a result of housing reforms a number of private (small) companies has also emerged since 1991 with increase choice for homeowners. For example, in Hungary local authorities have been using two models to manage their housing stock. The first is when the former state maintenance company (IKV) becomes an asset manager and contracts out for maintenance. In the other model, the local authorities assume the role of the owner and the contracts could be made with independent maintenance companies. These companies could be new, or formed from the remains of the IKV and responsible for housing management, collection of rents and relations with the tenants (Douglas, 1997; Hegedüs et al. 1996). The new owners' associations have the choice of keeping the IKV or hiring a new company. In Budapest this has resulted in higher satisfaction with the provision of services with only modest increase in charges (Hegedüs et al. 1994). The situation is similar in the Czech Republic where local authorities are using private companies which are more efficient that the former state maintenance enterprises (Barros and Struyk, 1993; Kingsley and Mikelsons, 1996). In Slovakia national law mandates the privatisation of all the former public housing maintenance companies. Some of these companies will continue to offer services to owners' associations, but they face competition from the new private companies that can provide more efficient services often at lower cost (Banks et al. 1996). Local authorities in Moscow started to contract private maintenance companies in a pilot scheme including over 100 000 dwellings at the end of 1994, which has been also introduced in other cities (Renaud, 1995; Struyk, 1996). In Bulgaria housing management/maintenance companies became independent form local
authorities in 1991 and they also perform repair and maintenance services for the (new) owner-occupiers in the former public rented sector (Tsenkova, 1996). In Poland public maintenance companies were still in charge of the process in 1996 (Struyk, 1996). In Slovenia the privatisation aim of 'improved economic efficiency' refers particularly to better maintenance of the housing stock (Mandic, 1994). After 1991 (municipal) maintenance enterprises have been reorganised and/or privatised and a large number of new companies emerged, competing for management/maintenance contracts of multi-dwelling buildings.

3.2.9. Housing Finance Reform

The former socialist countries have a different experience in housing financing although some elements were common, as the monopoly of state savings banks and the use of low interest rate credits in the form of (state) subsidy for acquiring of housing. The principle difference between the countries was in the amount of credit undertaken and, the subsidies associated with housing construction, which reflected the policies, pursued in each country. In the case where the policy goal was to use own households' resources, housing loans were relatively high (e.g. Hungary, former Yugoslavia, and to some extent in Poland). In other countries, where development of public rented housing (including cooperatives) retained its primacy over the private sector, credits were relatively low (e.g. former Czechoslovakia and East Germany respectively) (Barross and Struyk, 1993; USAID, 1993). The transition process has entailed or sustained significant rate of inflation in all Central and Eastern European countries, except in the former Czechoslovakia. High inflation had a strong impact on the increase of interest rates on outstanding loans at the end of 1980s (e.g. Hungary, Poland, former Yugoslavia and Bulgaria) or by making arrangements with borrowers to (re)pay the loans, with the bank forgiving some of the outstanding debts (e.g. Hungary). At the beginning of policy reforms Poland and Hungary removed the monopoly privileges of state savings banks in housing finance (Turner, 1991). The interest rates increased on new loans in Poland, Hungary, Bulgaria and Slovenia by the end of 1992. This withdrawal of state subsidies in 1990s had a direct negative effect on new housing construction or purchasing of owner-occupied dwellings (Barross and Struyk, 1993; Struyk, 1996). Since 1990 very little
lending (short or long term) has been made to households and most has been in the form of selective financing for the acquisition of existing housing stock rather than for new construction.

The most interesting housing finance innovations at the beginning of 1990s were introduced in Poland, Slovenia, Czech and Slovak Republics and Russia (Struyk, 1996). There have been some attempts to create new housing finance system with affordable loans available for housing purchase. In the Czech Republic and Slovakia the state banking system has been changed into 'building savings system'. Government has chosen to establish a similar type to German 'bausparkasen' system as an incentive for the construction of houses that is compatible tradition of savings before the start of building procedure (Kingsley and Mikelsons, 1996; Slootweg, 1994; Struyk, 1996). It operates a system of personal savings which lead to preferential purchasing with the limited state contribution (Clapham, 1995). In Russia the state banks have played a minor role in financing new housing construction supporting only 10 percent of all projects due to the high inflation in 1990s and negative real interest rates on credits). Problems with long-term mortgage funds arise from both Russia's lack of experience with such a financing and an inadequate legal basis (Struyk, 1996). In Hungary some dual rate mortgages were made available from 1995 by the State Savings Bank in response to consumer demand (Struyk, 1996).

Slovenia implemented a simple adjustable rate mortgage (R-current rate of inflation + 12% interest rate), which shifted risk to borrowers. In the high inflation environment between 1991-93 (250 percent) borrowers had to devote a substantial share of their income to loan repayments (Barros and Struyk, 1993; Struyk, 1996). The other financial (institutional) innovation in Slovenia is a National Housing Fund which has been established at the end of 1991 with the funds (20 percent) from the sale of public rented housing in order to provide affordable low-interest housing loans (R+3%) for up to 15 years primarily to first time buyers of owner-occupied housing.\footnote{For selective social groups only - i.e. young families, families with three or more children, low-income families, disabled, or extended multi-generation families sharing the same dwelling, etc.) for purchasing, construction or rehabilitation of housing, as well to housing associations for provision of non-profit housing.} Since 1994 negotiations...
between Ministry of Environment and Physical Planning and Ministry of Finance have been focused on preparation of legislation for establishment of the National Housing Savings Bank to facilitate access to home ownership through market provision with long-term mortgage loans. National Housing Fund would continue to subside provision of housing for selected social groups and non-profit housing associations, while Housing Savings Bank would provide long-term mortgage loans for purchasing or construction of private housing. Some commercial banks are also providing some sort of a mortgage credit but the conditions vary according to the internal bank policy e.g. type of credit, interest rate (on average R+10% until 1998), borrowing power (the monthly annuity should not be higher than 25-30 percent of the net borrower’s income), amount of loan (e.g. 30-50 percent of the estimated value of property) on 10-20 years (Mandic and Stanovnik, 1996; Pichler-Milanovich, 1999).

Housing finance reforms in Central and Eastern Europe neglected to address the problem of financing the new public rented housing. As part of housing reforms, responsibility for public rented sector (or social housing) shifted from central to local government that are not able to launch new programmes due to budget constrains. The arrival of competitive housing finance system is still rather a slow process. Despite financial reforms, bank loans are not affordable, providing only short-term loans with high interest rate while the existing state subsidies have been drastically reduced. This has had a negative effect on a new housing construction and low transactions within the existing housing stock. Intergeneration equity financing (i.e. family and kinship networks) is now the dominant source of funding for both single family house and individual dwellings in multi-family building (Struyk, 1996). Financing of new construction, purchasing, and housing rehabilitation activities is a serious constraint for efficient and equitable urban housing markets in Central and Eastern Europe.

4. Conclusion: Convergence, Divergence or Policy Collapse?

Housing reforms seem to reveal a few similar trends that characterise the development of housing policies from 1980s in both Western (EU) and in 1990s in Central and Eastern

23 In 1999 the prospective Housing Savings Bank has been replaced with the Housing Saving Scheme
European countries. In Western Europe housing policy indicates a shift from general to more selective welfare (state) policies with the tendency towards the decline of state support for public rented housing. In the 'post-socialist' Central and Eastern European countries a shift from 'state paternalism' to privatisation is the general tendency as a direct consequence of the political changes and economic adjustments, despite previous ‘marketisation’ reforms in Hungary and the former Yugoslavia and their divergence from the East European housing model.

4.1. Differentiated Housing Policy Regimes

After the Second World War former socialist Eastern European countries were similar between each other in respect to ideological background of their housing policies, while the differences were reflected in the ownership and institutional forms of housing provision, economic development and administrative structure (Renaud, 1995). Since 1990 housing privatisation reforms have been taking the same direction in all Central and Eastern European countries, but different forms in their formulation and implementation. In spite of the similarities in objectives, i.e. promotion of owner-occupation, reduction in budget expenditure and, the shift from supply to demand subsidies, there are also considerable differences in housing policy development. The most significant difference is related with the housing ownership transformation, or tenure change. This also depends on historical and cultural traditions, institutions and legal context of the housing sector as well as macro-economic situation in particular country. The outcome of privatisation and performance of urban housing market also depends on conditions of sale, institutional and financial regulations, type of buildings, and location.

Differentiation between the countries in the process of housing reforms has occurred through development of specific housing policy regimes as: Baltic, Central-East and South East European type (see also Tosics. 1998; Pichler-Milanovich, 1999) – that is influenced by ‘path dependent’ process of historic and institutional factors before and during the socialist period, and current (geographical) influence and policy ‘know-how’ of neighbouring EU countries i.e. Scandinavian (with socio-democratic policy regimes)

Programme introduced as a state subsidy in partnership with existing banks and National Housing Fund.
on Baltic countries; Germany/Austria (corporatist regimes) on Central-East European countries (e.g. Czech Republic, Poland, Slovakia), and similarity of rudimentary regimes of South Europe on South-East European countries. Again, as during the socialist period Hungary and Slovenia have been positioned between the Central and South-East European type. Housing privatisation in these countries is also similar to Anglo-Saxon (i.e. UK) model, at least in the form how the sale of public rented housing was formulated and implemented in 1990s.

4.2. Effects of Housing Privatisation on (Urban) Housing Markets

The formulation and implementation of housing privatisation policies in Central and Eastern Europe have direct effects on performance of the urban housing markets that were influenced by these reforms. Housing privatisation is the main element of the 'transition' in the urban context (Bodnár, 1996; Pichler-Milanovich, 1994, 1999). Public rented housing was built almost exclusively in multi-dwelling buildings in system-built housing estates in large cities and important industrial centres. Therefore, ownership transformation, management and financial reforms, as new maintenance and rehabilitation activities have an important impact on the urban housing markets in the form of: tenure change, differentiation in house price, use of the housing stock, management and maintenance activities, mobility, residential differentiation, property rights regulations (i.e. zoning, rules, property register, condominium law, tax, etc) and institution building (i.e. insurance, real estate agencies, mortgage finance, etc).

A comparative review of housing policy formulation and implementation in Central and Eastern Europe reveals that (urban) housing markets are neither efficient nor equitable. Housing policy was not formulated on market principles, especially with regards to compulsory low-sale price of public rented housing to sitting tenants in some countries. Location was not taken in consideration in evaluation of the book-value of the public rented housing, low price selling strategy (with discounts) was implemented, housing finance (for construction, purchasing and rehabilitation) is not affordable and, still

controlled by the state, private housing construction industry is not dynamic, funds
collected from selling of public rented housing were not re-invested in new housing
construction and rehabilitation. Households who obtained public rented housing were
privileged during the former socialist regime through allocation of public-rented dwellings (merit, need) and low interest loans for purchasing/construction of dwellings.
The most important outcome of housing privatisation reforms is the increase in home
ownership, and withdrawal of the state (institutional) involvement in housing provision.
As a consequence housing supply has become constrained and with lack of affordable
financial instruments and building land, the increase in house prices became the most
important side-effect of these housing reforms. The new housing policy regulations are
not transparent enough, and in many countries the long-term housing strategy has not
been formulated as yet, determining the role of the state and other institutions in the
provision of housing. The process of institutional building, strengthening and their co-
operation is still in its infancy. Policy is selective towards marginal social groups while
the effective demand depends not on the market provision, but on family and personal
networks that became the most important way in obtaining the housing. The housing
situation has not improved since 1990, with the exception of the size of new housing
provided by the private sector. Housing provision is directly correlated with the current
macro-economic situation in particular Central and Eastern European country and,
inherited structures before implementation of housing privatisation reforms. This has
been most evident in the case of constrained housing investments, affordability and low
construction of new housing (see Table 5).

Therefore, housing privatisation in Central and Eastern Europe did not achieve the stated
(overall) objectives as regarding the performance of the housing markets. The only aim
that has been fulfilled is the control over budget expenditure for macro-economic reasons,
and rise in home ownership. The overall change is not of housing policy convergence to
achieve an efficient and equitable market, but rather a ‘policy collapse’ with significant
effects on polarisation in the housing market - that is also significant in EU countries (see
Kleinman, 1996; Kleinman et al. 1998).

4.3. Policy Requirements and Recommendations
Since 1990 policy making in Central and Eastern Europe has been under influence of international organisation, agencies, and individual experts on policy recommendations and guidelines that are expected to be incorporated in the local process of decision and policy making. The pressures from the World Bank and IMF at the beginning of transition reforms required the reduction of public expenditure (as the price for loans), structural adjustment and adoption of financial measures to control inflation, etc. They have an important influence on national governments in Central and Eastern Europe at the beginning of 1990s for formulation of housing privatisation reforms, especially for countries which used to be the great borrowers in 1970s and 1980s – i.e. former Yugoslavia, Hungary, Poland. The pressure was even greater in the case of Slovenia with the budget deficit at the time of independence from the former Yugoslavia (June 1991), inherited high inflation and (re)applying for membership of international organisations. The neo-liberal privatisation ideology of the Thatcher government in the UK, including the sale of council houses in 1980s has also influenced the political and decision making process of housing policy development in 1990s in i.e. Slovenia, Hungary. Further World Bank housing policy recommendations were presented in the ‘Enabling Markets to Work’ (1993) that articulates the housing policy as the main re-orientation in strategic thinking towards the housing provision and lending programmes as it has evolved during the 1980s and early 1990s. The paper proposes a number of important new directions and advocates the reform of government policies, institutions, and regulations to ‘enable housing markets to work more efficiently’. Governments are advised to abandon their earlier role as direct producers of housing and to adopt an enabling role through policy instruments as regulation, land development, provision of finances, institutional strengthening and partnership approach between different actors in the housing market. As housing production is one of the most important economic activities in the urbanisation process the focus of reforms is on urban housing, where most investments take place, and where housing problems are generally most acute.

In the second part of 1990s the UN Habitat Agenda II (1996) has become another important ‘global’ housing and urban policy document with recommendations towards sectoral adjustments and harmonisation of legislation to improve efficiency and equity through market regulations and co-operation between the actors involved in the process
of housing provision. It is expected that governments in Central and Eastern Europe will incorporate these recommendations in their strategic policy making at both national and local level.

Since 1993 European Union (EU) has become the most important international actor in the policy making process in Central and Eastern Europe regarding prospective new enlargement of the EU. Copenhagen (1993) requirements followed with the Pre-accession strategy (Europe Agreements, Multi-lateral Dialogue, White Paper on the Single Market) and ‘Agenda 2000’ (1997) as a blue-print or strategic document for fully-fledged membership of the EU, - require the existence of a set of policies and provisions that will clearly influence the decision, policy and strategy making of Central and Eastern European governments. Housing per se is not regulated at the level of the EU (Kleinman, 1996; Kleinman et al. 1998), but harmonisation of legislation, property rights, tax system, budget expenditure, credit provision, housing market institutions, and social policy objectives are all important in the process of housing policy formulation, implementation and performance of the housing markets. Furthermore local and central governments in Central and Eastern Europe can benefit from advice and policy know-how activities and technical assistance programmes from current EU member states, especially in regards to financing, taxation as well as good practice in formulation of local policies and strategies towards management and maintenance of the existing housing stock, and urban planning instruments, such as housing rehabilitation and urban renewal.

25 UNCHS (Habitat) is the only international organisation and the UN agency with the sole responsibility for the human settlements with the mandate of assisting member states and local authorities in the formulation and implementation of policies and strategies in the area of housing and urban development. The most important slogan of the Habitat Agenda II is "an adequate shelter for all and sustainable human settlements development in an urbanising world" that emphasises the ‘sustainability’ and partnership approach in housing provision and urban development, and exchange of policies and best practices between different actors.

26 The European Council meeting in Copenhagen made the historic promise that “all Central and Eastern European countries that wished to become members of the EU could do so, provided that they are willing and able to meet conditions that require”: 

first, standards of democracy, the rule of law, respect for human rights and protection of minorities which are similar to those that are typical in EU member states; 

second, a functioning market economy and the ability to cope with competitive pressures within the EU Single Market and; 

third, to fulfill the formal obligations of membership by adopting and implementing the large and complex body of rules and laws agreed over the 40 year history of the EU known as the "acquis communautaire". New member states have to be also prepared for full membership of the Economic and Monetary Union (EMU).
The global request for political and macro-economic adjustment, and recent EU requirements for harmonisation of policies and legislation represent a new force of ‘convergence’ between Central and Eastern European countries. The first phase of housing privatisation with ownership transformation as the most important element of reforms followed by transformation of the financial sector, construction industry and reforms of the rented sector has been finalised or under way in all Central and Eastern European countries (Hegedüs et al., 1996). The second phase in housing policy development should be focused on institution building and strengthening, introduction of comprehensive housing strategies and information data-base and monitoring, affordability and operation of the housing market. Housing maintenance, rehabilitation and new construction are also important elements of urban development and planning.

Despite similar trends in housing reforms the individual Central and Eastern European countries will continue to differ between each other regarding the specific characteristics of their local policy development and housing markets, irrespective of dominant ideology, political and economic forces. But policy and decision makers in Central and Eastern Europe need to be aware of what market can achieve and why it fails, and to have comprehensive understanding of local problems as well as the knowledge of international policy development. Therefore, there is a continuous need for public involvement in combination with private investments and targeted financial subsidies in the next stage of housing market development - in order to avoid well known problems of homelessness, urban decline, social and spatial polarisation, crime, etc. known to many urban housing markets in Western European in the past few decades.
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