Reinventing Social Housing in Post-socialist Europe

Introduction

The transition from a command to a market-based housing sector in post-socialist Europe is closely connected with the rapid transformation of the welfare state. Across the region the sector has become the ‘shock absorber’, providing some stability and security within a framework of market-driven economic and social change (Struyk, 1996). A decade after the initial reforms, housing markets have recovered, but housing production has remained historically low, the existing stock has deteriorated and homelessness has increased. On the fiscal side, most of the reform efforts so far have centered on the elimination of production and consumption subsidies for housing leading to major decline in public housing investment (Hegedus et al., 1996; Hegedüs, J. and Struyk, 2006). On the financial side, policy reforms have supported the transition from a highly subsidized system of housing finance to a system driven by private initiative and real costs of housing services to consumers (Renaud, 1996; Struyk, 2000). Housing policies have been marked by emphasis on privatization of public housing and general deregulation of housing markets (Clapham et al., 1996; Marcuse, 1996). As the flagship of housing reforms, privatization of public housing has fuelled the expansion of home ownership, creating ‘nations of homeowners’ with levels of home ownership higher than 80 per cent (Tsenkova, 2000).

While earlier comparative studies have focused on similarities in the reform process (Clapham et al., 1996), recent comparative research has emphasised the importance of path dependency (Pishler-Milanovitch, 2001) and divergence depending on policy choices (Tsenkova and Turner, 2004; Tsenkova, 2008). This paper supports the view that housing systems in post-socialist Europe will become more diverse in the future and the diverging performance of their housing markets will increasingly depend on the success of policy reforms. In particular, the choices made with respect to the social housing sector will be critical in defining the type of housing system that is emerging and correspondingly the housing policy regime. In this context, it is important to ask what is the future of social housing? How would the size of the sector, its institutional structure and ways of operation affect its character? How would differences between countries in the post-privatisation phase influence their housing reforms?

The paper treats these questions focusing on the experience of South East European countries. It draws on concepts and models developed by Kemeny in his analysis of social rented housing in Western Europe (Kemeny, 1995). The objectives are as follows:

- To identify challenges for social housing in eight countries in the region with an emphasis on changes in ownership, rent, allocation policies and sources of financing;
- To provide recommendations on policy reforms in these countries that will improve asset management of the sector and enhance its sustainability.
The paper is organised in three major parts. First, drawing on Kemeny’s model, the analysis explores the impact of housing reforms on public housing with an emphasis on privatisation, rent and allocation policies. Second, it provides an overview of emerging trends in the financial support for the sector, including the provision of new social housing. Third, the concluding comments highlight major challenges for the sector and explore options for reform based on the Western European experience.

It is important to note that the overview excludes government funded programs for refugees and internally displaced people (IDPs), which in their own right deserve a special investigation. South East Europe has experienced the largest refugee crisis in Europe since World War II. By 1995, the region witnessed the displacement of more than 2 million people creating unique housing challenges. Serbia and Montenegro still host the largest number of refugees and IDPs in Europe, including 226,104 IDPs from Kosovo/UNMIK. While the majority lives in private accommodation, some 17,000 remain in collective centres. Most of the 186,451 IDPs in Bosnia and Herzegovina need a durable solution (UN-HABITAT, 2005).

**Regional Perspectives on Public Rental Housing**

Kemeny’s (1995) influential comparative housing study distinguished between dual systems, based on direct competition between the social rental sector and other tenures, and unitary systems derived from a social market strategy. In a dual system the government uses the social rented sector as a safety net for low-income groups. It is characterised by several institutional arrangements – state ownership and management, rent setting policies insensitive to demand and allocation driven by bureaucratic procedures. Such ‘command’ system of social rented housing usually operates when the sector is small and residualised.

Countries in South East Europe have the legacy of a controlled ‘command’ housing system for the provision of public rental housing. The system was based on low housing costs, centralised production and state or enterprise control over housing allocation. The bureaucratic allocation was administered through ‘waiting lists’ for housing maintained by municipal housing authorities and, in the case of Serbia and Former Yugoslav Republic of Macedonia, by public enterprises. In the context of this shift away from direct state intervention to market-based provision of housing services in the 1990s, municipalities have emerged as the new social landlords with major responsibilities for housing the poor and disadvantaged (Donner, 2004; ECE, 2003). In most countries, as the data presented in Figure 1 indicate, mass privatisation has reduced the size of the social rented sector mostly through transfer to sitting tenants (free of charge, through vouchers or nominal fee). While these populist policies have been equally attractive across the region, governments have been reluctant to introduce less popular measures such as cost recovery of rents or deregulation of maintenance and management (Lux, 2003; Tsenkova, 2005).
The term public housing is used to define the social rented sector. In some countries in the region (Romania and Serbia) social housing at the moment is a subcategory of municipal housing.

Despite rapid privatisation, the public rental sector in the region includes 462,820 units. South East European countries have chosen different strategies to address major issues related to access, management and financing of social rented housing. While these strategies have not been explored in a systematic manner, there seems to be a consensus that the countries are moving in the same direction – towards residualisation. The analysis starts with a review of the three critical elements characterising the public housing sector – ownership, rent and allocation policies in a comparative perspective. These are summarised in Table 1.

**Ownership**

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

Ownership is vested with municipalities with the exception of Former Yugoslav Republic of Macedonia where public rental housing was transferred to a state enterprise – Public Enterprise for Management of Residential and Commercial Real Estate. In the privatisation aftermath, most municipalities are left with housing stock of substandard.
quality, largely in need of extensive repair. Reportedly units are much smaller than the average (44 sq m in Romania, 56 sq m in Bulgaria) located in multi-apartment housing, often with mixed ownership.

<table>
<thead>
<tr>
<th>Public Housing % of total</th>
<th>Number of Units (thousands)</th>
<th>Management &amp; Maintenance</th>
<th>Allocation</th>
<th>Rents</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bulgaria</strong></td>
<td></td>
<td>Municipal maint. firms</td>
<td>Targeted based on 4 categories; tenants in rest. property have a priority</td>
<td>Locally controlled with some central guidance</td>
</tr>
<tr>
<td>3.00</td>
<td>110.92</td>
<td></td>
<td>Poorly targeted, previous tenants</td>
<td>Centrally controlled</td>
</tr>
<tr>
<td><strong>Croatia</strong></td>
<td></td>
<td>Enterprises with municipality as majority shareholder</td>
<td>Poorly targeted, previous tenants</td>
<td>Centrally controlled</td>
</tr>
<tr>
<td>2.80</td>
<td>51.84</td>
<td></td>
<td>Centrally controlled</td>
<td>Centrally controlled</td>
</tr>
<tr>
<td><strong>Moldova</strong></td>
<td></td>
<td>Municipal maintenance firms</td>
<td>Less targeted</td>
<td>Centrally controlled</td>
</tr>
<tr>
<td>5.00</td>
<td>64.56</td>
<td>Central public enterprise for management of residential and commercial real estate</td>
<td>Less targeted, various categories including government employees</td>
<td>Centrally controlled</td>
</tr>
<tr>
<td><strong>FYR Macedonia</strong></td>
<td></td>
<td>Central public enterprise for management of residential and commercial real estate</td>
<td>Targeted, mostly socially disadvantaged; tenants in rest. property</td>
<td>Centrally controlled, set at 25% of tenant income</td>
</tr>
<tr>
<td>0.60</td>
<td>4.19</td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>Romania</strong></td>
<td></td>
<td>Municipal maint. firms with some budgetary org. in larger towns</td>
<td>Targeted, mostly socially disadvantaged; tenants in rest. property</td>
<td>Centrally controlled, set at 25% of tenant income</td>
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<tr>
<td>2.20</td>
<td>178.36</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>Serbia</strong></td>
<td></td>
<td>Municipal maint. firms</td>
<td>Less targeted, various categories including young families, public officials</td>
<td>Centrally controlled</td>
</tr>
<tr>
<td>2.10</td>
<td>52.95</td>
<td></td>
<td></td>
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</tbody>
</table>

Source: Adapted from Tsenkova, 2008

**Rent Setting**

Previously highly dependent on central government control, municipalities have become the new social landlords in most countries across the region. The institutional reforms in the housing system, and the new financial regime for operation, allow more autonomy in decision-making but also imply a growing social responsibility to deal with poverty and to house the socially disadvantaged. Reforms in the legal framework in Bulgaria provide the opportunity to set rents locally\(^1\); in Albania\(^2\) Moldova, Serbia and Romania, rents are controlled at the state level. In most countries rents are set below market levels, with

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\(^1\) However, the *State Property Act* recommends the basic rent per sq m to be BGL0.30 (US$0.14). In practice most municipalities are using this benchmark with rent levels increased by 40%.

\(^2\) In the case of Albania this refers to the denationalised housing stock. In future social housing projects rents will be determined locally using the methodology developed by central government.
‘flat’ rent structures not reflecting the value or the location of the property. In Moldova, for example, rents are 0.2 lei per sq m per month\(^1\), in Montenegro EUR 0.01, in Serbia 2.18-3.5 dinars (EUR 0.03-0.05) while in Romania rents are 25 percent of household income (10 percent in social housing). Furthermore, in Romania, Albania and Croatia the legislation stipulates that rent control is applied to housing subject to restitution.\(^4\) The policy of uniform rent constitutes a universal subsidy that is poorly targeted to households in need. Rent structures are not sensitive to demand and there is no mechanism for exit from the sector when the household’s income increases above a certain threshold (Lux, 2003; ECE, 2001). Interviews with housing managers in Chisinau, Belgrade, and Skopje at the end of 2004 indicate that rents barely cover operation costs, but introducing cost recovery for housing services tends to be politically unpopular. Correspondingly, municipal maintenance companies carry out marginal upkeep and resort to patchwork maintenance and emergency repairs.

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

**Allocation**

A low rent policy and a rationing system through waiting lists continues to be the cornerstone of municipal housing policies. In Chisinau 60,000 households are in line. Most of them were selected on a needs basis: handicapped, military personnel, single parent households living in unacceptable housing conditions. Oddly enough, low income is not a criterion for receiving a dwelling through the line. In Romania municipal waiting lists for social housing are based on a point system designed in the Housing Law of 1996.

In most countries in the region, priority today is given to households with special needs: orphans, the handicapped, chronically ill, the elderly and single parents. Most municipalities have revised their housing waiting lists along these lines. Tenants in properties subject to restitution are given priority in Bulgaria, Romania and Croatia. Since tenant protection in public housing is still considered to be strong, there is little turnover and almost non-existent vacancy rate in urban areas.\(^5\) Despite the changes in the previous legislation, which provided life-long guarantee of tenant rights and provisions for inheritance of rental housing, tenant eviction for non-payment today is costly for the...

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\(^1\) The standard rent ranges between 15-30 lei per month while payment for heating tends to be 300 lei per month.

\(^2\) In Romania rents are regulated centrally; Government Emergency Ordinance 40/1999 establishes the protection of tenants.

\(^3\) In Croatia the Law on Apartment Renting and the Law on Tenure introduced the right of ‘protected tenant’ with the option to conclude an indefinite contract and pay uniform protected rent. Tenants in apartments subject to restitution also received the status of a protected tenant. Repossession by the owner is conditional upon the provision of a flat which can be privatised at the same conditions as the socially owned flats. Similar provisions were introduced in denationalised rental properties in Albania and Bulgaria.
social landlord, takes at least two years to be enforced, and certainly appears to be politically unpopular.

**Maintenance Practices**

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

![Diagram of Maintenance Practices](image)

**Fig. 2. Day-to-day asset management**

Given the lack of supply-based financial support for the maintenance of public housing and inadequate assistance on the demand side, very few municipalities invest in housing renovation and improvement. Within the general policy framework of city-wide control and decision-making, the ‘day-to-day asset management’ appears to be the norm. It is characterised by a shrinking portfolio, transfer of management to homeowners, and phasing out of responsibilities. The emphasis is on operational management and efforts to balance the budget while avoiding major technical and social problems. Activities are performed very much on an *ad hoc* basis. As presented in Figure 2, the ‘day-to-day asset management’ includes two components. The technical management component focuses on monitoring and supervision of local staff involved in emergency and routine repair, while the financial management component centres on revenue management, rent and...
arrears collection. Interviews with housing managers demonstrate the growing importance of financial management, particularly in the context of inflation and little to no subsidy for capital improvement and investment. The operational input-output model in Figure 2, often applied in public housing, involves planning and provision of basic packages of routine maintenance services – *outputs* – in response to requests for repairs formulated at the level of individual dwellings and/or buildings – *inputs*. In addition, managers perform social and welfare functions advising tenants on social assistance and manage rent arrears.

### Changing Financial Support for Public Housing

#### Provision of New Public/Social Rental Housing

In most countries in South East Europe, the state is almost invisible in social housing policy. In Bosnia and Herzegovina major responsibilities for housing are delegated to the entity level and correspondingly to the cantons and municipalities. Across the region direct housing subsidies from the state budget for new construction of public housing have been eliminated, although some ad hoc funding for pilot projects is provided (Romania is a notable exception). Municipalities have acquired autonomy in the management of public rental properties. This devolution in governance, essentially beneficial for locally appropriate responses to housing market conditions, has left a lot of unfunded mandates. Under the present regime of fiscal austerity, the practical implementation of social housing policies is essentially driven by what municipalities can afford, as opposed to rational responses to housing need (Tsenkova, 2005).

Romania has resumed its old financing model for new rental housing construction, in which local governments and central governments co-finance the investment costs. The pump-priming of new housing investments in the rental sector in Former Yugoslav Republic of Macedonia, Croatia, Romania and BiH is mostly implemented through direct lending for housing secured through Council of Europe Development Bank loan and grants to local governments.

In Romania the *Programme for Social Housing Construction* is implemented in partnership between the local governments and Ministry of Transport Communication and Tourism, which provides financial support in addition to land and infrastructure finance. The target group is vulnerable social categories of households, irrespective of their age. The dwellings are not for sale and rent is subsidised. In addition, the Romanian National Housing Agency (RNHA) in convention with local governments implements a *Programme for Rental Housing for Young People*. Local governments provide land and infrastructure and allocate the dwellings. RNHA acts as project developer, promoter, construction supervisor and financial provider. The target group is people under 35 (could be young people from social protection institutions); the dwellings remain public rental property administered by the local councils. An example of such project is a housing development in Brâncuși District, Bucharest. The project has a total land area of

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6 In Romania municipalities are obliged to house people with income below the national average. Public housing is financed by the local budgets with some transfers from the state.
67.3 ha with 4,695 units: 186 in private property with mortgage credit and 4,509 rental housing for young people. This mixed community also has a nursery, kindergarten, school, health centre, police headquarters, sports fields and commercial areas (Council of Europe Housing Network Country Reports, 2004).

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

Fig. 3. Social housing in Brancusi District, Bucharest

In Former Yugoslav Republic of Macedonia new social housing is under construction since 2000 with a EUR 15 million loan from the Council of Europe Development Bank matched by the same investment from the state budget. The objective is to build 856 flats across the country. The flats are intended to be rented for five years for low income households (average annual income per member of a family below 65 percent of the average at the national level) without housing property as well as to young couples with children and children without parents accommodated in institutions until the age of 18. The project is scheduled for completion in 2007. Units can be sold to tenants after the five-year period.
**Housing Assistance to Low Income Households in the Rental Sector**

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

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

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

**European Models of Social Housing and Policy Options for its Future in the Region**

Despite these differences with respect to supply- and demand-side support, countries in the region are faced with a similar challenge: less social housing to accommodate a growing number of poor and socially disadvantaged households. The pressures for more affordable social housing are increasingly driven by the rapid growth in poverty and patterns of social exclusion, particularly for ethnic minorities (see Tsenkova 2006 for a review of the literature on these issues).7

While affordability constraints are growing in South East Europe, a handful of local governments, supported by central government subsidies, have had the political will to overcome some of the barriers to development of new social rental housing. Developing housing for extremely low-income households is difficult without multiple subsidies and complex financing packages. While a lot of the projects aim at private or non-profit sector involvement for the new provision of social housing, without capital subsidies to fill the gap between what low-income renters can pay and the rents needed to cover development costs, programs cannot adequately serve the poor. Furthermore, the combination of higher construction and operating costs, along with stagnant or even declining rents tied to household income limits, can undermine the fundamental viability of affordable housing projects. In this context, it is not surprising that new social housing

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7 Poverty rates defined as share of the population living on less than $US2 per day.
is not provided in most countries across the region. Across Europe, recent data on new housing provision of social housing suggest that in countries where the sector is significant, there is an ongoing commitment to maintain adequate supply. The data in Figure 4 presents the share of social housing in each country and the new social housing built in 2004 as a share of total new construction. Austria (30%), Denmark (20.7%) and Sweden (16%) have the highest rates of new social housing production, followed by Finland, UK and the Netherlands with rates in the range of 12 percent. It is interesting to note that several countries (Poland, the Czech Republic and Slovakia) have initiated new social housing programs in recognition of their importance for marginalized groups in society.

Fig. 4: Social Housing in Europe: Existing Stock and Rates of New Construction,

Source: Author’s estimates based on data in MoIIR, 2006

In Western Europe social housing continues to play a major role in assuring access to affordable housing of decent standard. As the importance of the sector in meeting housing shortages has diminished, differences in the approaches in different countries have emerged (Oxley and Smith, 1996; Heijden, 2001). In countries where there is a
significant share of social housing (e.g. France, Denmark, Finland, Sweden and Netherlands), allocation encourages an income mix, rents are closer to cost recovery but low-income households receive allowances. In countries where the sector is small (e.g. Italy, Ireland, Spain, Portugal, Greece), rents are low since it is used as a safety net for vulnerable households. In these cases, allocation policies are driven by bureaucratic rules and demand-based assistance is more limited (Tsenkova and Turner, 2004).

Fig. 5: Social Housing in Europe: Existing Stock and Tenant Support, 2004

![Graph showing the relationship between share of social housing and tenant support across European countries.](image)

**Note:** Fr-France; D-Denmark, F-Finland, Sw-Sweden, UK-United Kingdom, Nl-The Netherlands, G-Germany, Gr-Greece, I-Italy, Ir-Ireland, Pl-Poland, Lt-Latvia, S-Slovenia, Sv-Slovak Republic.

Source: Author’s estimates based on data from MoIIR, 2006

Figure 5 presents these patterns using most recent data (2004) on share of social housing vs. the share of tenants receiving housing allowances. In post-socialist countries, where public/social housing has shrunk as a result of massive privatization, local authorities are left with the worst stock in a poor state of repair and with the poorest tenants. So it is not surprising that in countries such as Slovenia and Lithuania social housing is used as a safety net and rents are below cost recovery levels with a limited number of tenants receiving housing allowances. What is surprising is that a similar strategy is being adopted in Latvia, the Czech Republic and Poland (to some extent), as the data indicate. Developments in the social rented sector of old EU member states might prompt two diverging scenarios for the future of social housing in post-socialist Europe. In countries
where the sector is small (e.g. Albania, Bulgaria, Estonia, Lithuania, Romania and Hungary), it might be moving towards a residual model, operating as a ‘command system’ which targets low-income households. In countries where the sector is of considerable size (e.g. The Czech Republic, Poland, Latvia), it might be expected to evolve as a ‘social market’, being the home of a mix of income groups.

Across South East Europe, governments need to define the character of the existing public rental housing managed by public landlords. Based on the Western European experience, this will be a smaller social rented sector targeting vulnerable households, which provides ‘in kind’ rather than ‘in cash’ subsidies. The government shields the sector from competition and uses it as a safety net. Given the financial and fiscal constraints of most governments in the region, it might not be feasible to expand the provision of new social housing in the near future. Rather, policy reforms might focus on the design of housing allowances that will assist the poor and socially vulnerable households in getting access to private rental housing. If housing allowances are also available to public sector renters, there might be some scope for improvement in the existing public/social rental housing through differentiation of rents, competition in its maintenance and management and the development of a more efficient and transparent housing subsidy system that targets the needy and abolishes general subsidies.
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References


