



Local Government
and Public Service
Reform Initiative

TOO POOR TO MOVE, TOO POOR TO STAY

A Report on Housing
in the Czech Republic, Hungary and Serbia

EDITED BY
JAMES FEARN

LGI
FELLOWSHIP
SERIES



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Preface

In the countries of Central and Eastern Europe and the former Soviet Union, under state socialism, decent affordable housing was considered a basic human entitlement, guaranteed by central authorities. During the transition from planned to market economies in these countries, authorities withdrew their support for housing. The status of housing quickly changed from a fundamental right to a political and economic liability. As a result, funding for new housing construction, and for maintenance of existing housing, declined dramatically. By law, by market forces, and by default, primary responsibility for housing was transferred from state to local governments and to the general public.

These conditions have spawned a class of “housing poor”—people unable to rent or buy market-rate housing or maintain the housing they own.

To better understand the circumstances of the housing poor and of the governmental responses to their problems, the Local Government and Public Service Reform Initiative (LGI) of the Open Society Institute (OSI) initiated studies of the problems facing the housing poor in five capital cities in Central and Eastern Europe and the former Soviet Union.¹ The objective of the studies was to provide an in-depth examination and analysis of: 1) the living conditions and economic circumstances of the housing poor; 2) the state and local government housing policies and programs that address those conditions; and 3) the effectiveness of those policies and programs. Of particular interest were the:

- effects of housing privatization;
- allocation of responsibility, between central and local governments, for housing the poor;
- effects of past government policies on the production and availability of affordable housing;
- political and economic causes of any decline in housing production;
- quantity and types of housing built since transition;

- effects of tenant protections; and
- groups that primarily benefited from and were primarily burdened by government regulations.

After describing and analyzing the situation and existing policies, the authors were to recommend alternative policies and strategies for addressing the problems of the housing poor in the selected countries.

The Belgrade (Serbia), Budapest (Hungary), and Prague (Czech Republic) studies are included in this volume.² A comprehensive picture of housing conditions and policies in those cities was not possible without discussing housing conditions and policies in other areas of each country. Each study, therefore, includes some information and analysis on areas outside the primary study area.

For the purposes of this volume, “housing poor” has been defined as those who are: homeless; living in overcrowded conditions; living in illegal or sub-standard housing; paying more than a nationally-defined acceptable percentage of income for rent; or unable to pay for utilities and/or maintenance. Within this definition, “homelessness” generally referred to people who are “roofless”—not those who have shelter but would prefer better or different shelter.

Although the countries share common experiences and characteristics, their housing problems and policies vary dramatically. In each country, prior to 1989, housing was primarily built and maintained by central government and state enterprises. Although the quality of the housing varied, and much of it was not well maintained, there was generally enough to house the population. Rents and utility costs were subsidized and therefore extremely low, usually less than 5 percent of family income. Cooperative housing, partially funded from the central government budget, and privately-built and financed housing provided limited home ownership opportunities. There was no private rental housing market and no official system for buying and selling privately-owned housing.

In 1989, state governments began rapidly withdrawing their support for housing. Privatized state enterprises, which could no longer afford to subsidize housing, abandoned their support for housing altogether. In each country, state-owned housing, and the responsibility for maintaining and operating that housing, was transferred to local governments. In the Czech Republic and Hungary, the transfer occurred in 1991. In Serbia, housing became a local government responsibility in 1992. The transfer of housing and the responsibility for housing, however, was not accompanied by the legal authority and financial resources needed to properly discharge that responsibility.

When state-owned housing was transferred without the financial resources needed to operate and maintain it, government officials were faced with the unenviable choice of dealing with unending citizen complaints about housing conditions, or of raising rents substantially to pay for maintenance and major improvements. The decision was avoided by selling most of the housing, and with it the maintenance problems, to the public, often at below market prices. In the Czech Republic, half of state-owned housing was transferred to public ownership. In Hungary and Serbia, virtually all state-owned housing was privatized. As a result of this rapid and sometimes indiscriminate privatization, many local governments received less revenue for the housing sold than its true value and, in Hungary and Serbia, practically eliminated the supply of publicly-owned social housing, to the later regret of housing advocates and some government officials.

As central governments shifted the cost of housing maintenance to families and individuals, they were also eliminating subsidies for water, gas and electricity. At the same time, a variety of factors—including the transition from centralized to market economies, government policies, privatization of state enterprises, and corruption—caused dramatic increases in poverty and widening income disparities.³ To make matters worse, state housing subsidies intended to relieve poor households from the burden of ever-increasing housing costs were often granted to members of middle- and upper-income levels. Increases in poverty, housing privatization, and misdirected government subsidies worked together to create a class of people who owned their flats but lacked the financial means to maintain them or pay utility costs.

After 1990, central governments, short of revenue, essentially stopped building. At the time there were few (if any) private housing developers, especially developers of multi-family housing.⁴ New development business and housing construction, therefore, declined dramatically. While there has been a steady increase in the number of units constructed in recent years, the number of units built and planned is still very small while demand for new units continues to grow. The number of privately-built housing units, especially rental housing, is very small. In the Czech Republic, for example, privately-owned rental units made up only 5 to 10 percent of the rental housing stock in 2001. While there has been a steady increase in the number of units constructed in recent years, the number of private market units built and planned is still small relative to need.

The increased demand for affordable housing generated by the increasing numbers of people in poverty, and the decrease in new housing construction has resulted in increased overcrowding and homelessness. Overcrowding and homelessness proved difficult to measure in these studies: there are no uniform definitions of these terms and little data on these subjects is kept. The evidence available, however, indicates that overcrowding is a problem in all countries and homelessness is a problem in some countries but not others.⁵ New household formation did not cease when government housing supports ended, and as a consequence far fewer units affordable to these new households are now available. These new households, it is generally believed, are now living with other family members in existing housing. Homelessness, where it exists, is a complex problem, not to be solved by simply providing more housing. The homeless, largeley made up of alienated youth, divorced people who lack the financial means to rent or buy housing, people with mental or physical health problems, and people recently evicted from their housing, require a variety of housing and treatment programs.

Each study recognizes the need for both social housing and a functioning private rental housing market as essential elements of a comprehensive housing strategy. In most of Europe and in North America housing tends to be privately-built and owned. In the Netherlands, which has the highest percentage of social housing, approximately 60 percent of housing

units are privately-owned. At the other extreme, in the United States social housing (called public housing) is less 2 percent of total housing.⁶

The studies also reveal, however, substantial impediments to the construction of social housing and to the development of a functioning private rental housing market. Financial circumstances make it very unlikely that substantial numbers of new social housing units will be built. Construction of new social housing requires large sums of money that will not be available in the foreseeable future. But as important, maintenance of social housing is a huge burden on local government budgets. Until social housing rents are raised to a level to cover maintenance and operations costs, or additional rent subsidies are provided by the central government, new social housing will be disfavored.

The legal infrastructure needed to support a private housing market is generally inadequate. Tenant protections controlling rents and severely restricting evictions discourage private investment in rental housing. There are no reliable and efficient mortgage foreclosure procedures. Government regulations and restrictions make the housing development process lengthy and uncertain. Competitive financial institutions, needed to provide the loans for housing construction and purchase, are scarce.

Despite the similarities in housing conditions and government housing objectives in these countries, the particular circumstances of the housing poor, and government responses to those circumstances, are determined by pre-transition economic and social conditions, political and economic choices made since the transition, and the “cultural” values of each country. The particular circumstances of the housing poor, and government responses, therefore, vary substantially from country to country.

Serbia is a country of impoverished homeowners with almost no rental housing, significant overcrowding, a substantial refugee problem, almost no social housing and no funding for construction or acquisition of social housing, no system for private housing finance or development, and a government that considers housing a second or third priority. Moreover, there is a critical lack of reliable data on housing conditions for the country, which makes it difficult to accurately describe the nature and extent of the housing problem. Under these circumstances,

little progress is being made on the country’s housing problems. A comprehensive housing strategy is being developed, which includes not only public and market housing development programs, but also programs to address housing issues by reducing poverty.

Hungary, following its radical privatization of housing in the mid-1990s, is now, like Serbia, a country primarily of homeowners with a critical shortage of social housing, a lack of funds to build, acquire or maintain social housing, and a shortage of rental housing. Overcrowding is also a problem, as well as homelessness, especially in the major urban areas. Unlike Serbia, housing is, and has long been, a government priority. There are established housing subsidy programs for renters and owners, an established system for mortgage lending, a small but functioning private rental housing market, and a developing housing construction industry. Hungary’s housing goals and objectives include increasing the supply of social housing, retargeting subsidies to provide greater benefits to those most in need, improving the system for financing new housing construction, reducing homelessness, and expanding the private sector’s role in providing and operating rental housing.

The Czech Republic, unlike Hungary and Serbia, retained a substantial portion of its state-owned housing following during the transition and therefore now has a supply of social housing for those who cannot afford market rents. Like Hungary, and unlike Serbia, the Czech Republic has much of the legal and financial infrastructure needed to support private market financing and construction of housing, a small but functioning private rental housing market, and a variety of housing subsidy programs. In the last five years several hundred municipally-owned flats have been built in the Czech Republic, mostly in Prague. Although homelessness is not a problem, there is significant overcrowding. The challenges facing the Czech Republic include: 1) the modification of repeal of rent regulations carried over from socialist times that primarily benefit the middle and upper classes, and actually restrict housing availability for the poor; 2) targeting housing subsidies more toward low income people; 3) the creation of a viable social housing system without creating a system of social segregation; 4) improving the legal and economic climate for the construction of new, private rental housing;

and 5) improving local government management and administration of housing and housing policies.

These papers are intended, first and foremost, to serve as policy papers and to provide information and analysis to policy- and opinion-makers and government officials in the countries studied. As such, these studies provide useful historical background, and in-depth examinations of existing economic, political and social conditions, and of the governments' responses to those conditions in each country. Together,

they offer an opportunity for comparative analysis of conditions and approaches, not just for the countries studied, but also for other countries transitioning from government-owned and managed housing to a mixed public and private market housing system.

James Fearn
Fellowship Team Mentor
April 2004

ENDNOTES

- ¹ Although the housing poor live in both urban and rural areas, the greatest concentrations of housing poor are in major urban areas, which are therefore most impacted by their problems. The urban areas selected were Belgrade, Budapest, Moscow, Prague, and Sofia.
- ² The studies for the countries not included in this publication can be found on LGI's website at <http://lgi.osi.hu>.
- ³ In Serbia, 10 years of war and ethnic conflict were also major causes of poverty increases.
- ⁴ The number of privately built housing units, especially rental housing, continues to be very small. In the Czech Republic for example, privately-owned rental units made up less than 10 percent of the rental housing stock in 2001.
- ⁵ According to the studies, homelessness is a significant problem in Budapest, but is regarded as a marginal social problem in Prague and Belgrade.
- ⁶ Vakili-Zad, Cyrus (1996): "Privatizing Public Housing in Canada: A Public Policy Agenda." *Netherlands Journal Housing and the Built Environment* 47-67. Ball, M. et al. (1990): *Housing and Social Change in Europe and the USA*. London: Routledge.

TOO POOR TO MOVE, TOO POOR TO STAY



Stuart Lowe

Overview

Too Poor to Move, Too Poor to Stay

A REPORT ON HOUSING IN THE CZECH REPUBLIC, HUNGARY AND SERBIA

Overview

Too Poor to Move, Too Poor to Stay

Stuart Lowe

No single summary of the diverse housing market in Central and Eastern Europe has emerged in the last five years. Looking back to the era of state socialism, there was never one ubiquitous East European housing model (Turner, Hegedus and Tosics 1992) that spanned across the region. “Markets” of one sort or another were endemic under state socialism. Most inhabitants, most of the time, were in reality *outside* the state housing system and had to fend for themselves, particularly through self-building, unlocking the “second economy” and the common (but illegal) practice of selling state rental flats, usually for hard currency. Many similar social practices have in fact continued into the post-socialist era, and one general feature can be observed: the significant degree of continuity, including privileges, carried forward by families well placed in the old system. This has manifested in the regressive nature of subsidy systems through which middle-class households continue to benefit from low rents or, more typically, are able to utilize subsidized interest rates on mortgages. Essentially, societies differed from one another as much as they did from the Western European neighbors.

The decline of state socialism has not been a “clean” break. And despite the rapid and inevitable adoption of “western” market economic strategies, post-socialism has not been experienced the same way everywhere; rather, countries have emerged from the first period of transition with very different consequences and different problems.

The three countries represented in this study exemplify three potentially distinct trajectories of change. Two have very high home ownership (Serbia and Hungary); the third (Czech Republic) retains a significant portion of rental housing. This case is much more typical of neighboring European nations northward and westward, with a balance of owning and renting. Serbia, at 98 percent owner occupation,

is in the vanguard of a southeastern European cluster of states, with no effective rental sector—apart from a wholly unregulated private rental market that operates in the cash economy outside the tax system. Hungary, also at the upper end of the owner occupation spectrum, shares some features of this unregulated owner-occupied housing economy. In recent years, in the context of a strongly recovering economy and growth in gross domestic product (GDP), Hungary has been able to support subsidized mortgages for both newly built and existing properties. Evidence of a sharp increase in house building and increased mobility indicates the beginning of something resembling “normality” in the Hungarian housing market, although the undersized rental tenures create a plethora of problems, as will be discussed. The most prominent feature of the papers presented here is how significantly different each case is. These differences are almost certainly crucial for the paths of development in the housing systems of all three countries.

That said, there are common features of post-socialism, notably: an exacerbation of social inequalities; problems of governance; and widespread difficulties met by households—even those enjoying middle range incomes—in meeting the costs of living in economies no longer sheltered by COMECON subsidies¹ but increasingly wedded to global market pricing. Sadly, it is the impoverishment of, on average, an estimated 50 percent of these populations—and in some cases more—that unifies this small sample of states. The scale and degree of poverty experienced by the millions of households encompassed is difficult to convey.

Masa Djordjevic (this volume) alludes to the harshness of transition, suggesting that 40 percent of Belgrade flats lack central heating. Such cases can be found elsewhere: for instance, 44 percent of the population of Sofia, Bulgaria, have stopped complete

or partial use of their central heating because of its unaffordable price (Elbers and Tsenkova 2003, 123). Case studies also illustrate other distinctive features of housing for low-income households during transition: overcrowding (Djordjevic proposes 42 percent “critical or partial” overcrowding in Belgrade flats), poor conditions, and spiraling costs that subsume a growing share of household budgets.

Perhaps the saving grace in all this is that, on a day-to-day basis, for many—likely, for the majority—the daily housing situation has not changed dramatically (albeit colder and more expensive). Most continue to live in the same dwelling, with the same facilities and surrounded by the same clutter and treasured possessions that are the essence of homemaking. The “personal pole,” as Giddens describes the experience of individuals, is the vital building block of everything that happens (Giddens 1990).

It is indeed possible to discern patterns since 1990, and to identify the special role that “housing” has played in this period. The following section outlines some of these general patterns across the region as a whole, looking in particular at the problems that have been faced by low-income families in the so-called transitional period.

TRANSITION TO THE MARKET: THREE PHASES

Immediately following the collapse of state socialism, most of the countries in the region engaged in a rapid privatization of their state rental housing. From a base in which home ownership was already high, especially in rural areas, this has caused the creation of a number of super-owner occupied nations. Two of the cases in this volume have over 95 percent of their housing stock in owner occupation (Serbia and Hungary). In the case of the Czech Republic, a large part of what had previously been cooperative housing in effect falls into this category of ownership—although this country has retained a significant amount of municipal rental housing and a state-managed rent setting system. As was suggested above, these important contrasts should not be overlooked, as they lead to the possibility of very different long-term solutions to the housing issues they all face.

Rapid privatization was an inevitable consequence of transition, and happened almost by default from 1990 to 1995. Various explanations have been offered, with both political and economic reasons heavily represented. It was almost certainly the choice of the people who needed to feel a sense of security at a time when the wider economies were in a stage of traumatic flux. It was a politically favored option, and was an early example of the difference that democracy can make in offering choices. Meanwhile, it also reveals that the policy process, for better or worse, has political as well as economic drivers even in a period of crisis. Struyk famously argued that housing acted as a “shock,” taking up the impact of what was happening in the economy and society as a whole (Struyk 1996). Within their homes, people did, at least, retain control and find security. Politically, central governments, presiding over what in effect were bankrupt economies, had no resources to put toward housing. Across the board, the pattern was for housing to be devolved to local governments which, lacking any resources for even basic management and maintenance costs, engineered “give away” sales. This phase ended in most countries by the mid-1990s, including a variety of policies for the restitution of property “illegally” nationalized by the state in the 1940s.

The second phase of the transition following privatization can be characterized by the massive problem of affordability, related to the costs of housing related services, especially energy costs, other utilities and the price of building materials. This phase coincided with serious recession in regional economies, mass unemployment, decreasing GDPs and decreasing real incomes. The post-privatization witnessed the disengagement with a variety of more or less radical innovations, to a period that has been dominated by pragmatic and incremental responses to the legacies of the early transitional years. As Tsenkova neatly summarized: “...where the policy trajectory includes ‘trial and error’ and offers concessions to different institutional interests.” (Tsenkova 2003, 193). There is no question that the newly evolving, private building industries and the interests of the mortgage industry and banks more generally have vied with each other for precedence in influencing the subsidy systems. Middle-class voters have exerted considerable populist

pressure, too, and low-income households, comprising a majority of inhabitants in the region, have been marginalized. Low-income households find their standards of living squeezed and their needs excluded from the mainstream of political influence.

The third and current stage began at the end of the 1990s, when governments realized the need to develop housing policies that would support labor mobility, address the problems (created by the lack of investment in the housing program for nearly a decade) and face the consequences of the absence of a stock of social housing. They began to acknowledge the necessity of alleviating the chronic problems of overcrowding, stagnant housing markets and the almost total inability of newly forming households to enter the market except for the fortunate few whose families are in a position to assist. A particular incentive to re-think housing strategies were the criteria for accession to the European Union. It is not coincidental that Poland, Hungary, Slovakia and the Czech Republic have been the first to experiment with a new range of housing policies designed to improve their social housing, or at least to alleviate the worst problems caused by the transitional decade.

It should be made clear that these three stages overlapped to some extent, and happened at different times in different countries. Yet, it is possible to discern to a greater or lesser degree these phases in all post-socialist states.

RESPONSES TO THE HOUSING CRISIS

Housing programs aimed at alleviating the pressures and mounting problems caused by neglect of this policy area for over a decade have broadly focused on three strategy types. These are: housing allowances and measures to assist families to cope with rising housing costs; plans to revitalize and build new stocks of social housing; and policies that support household investment into the owner-occupied market (both access and construction subsidies). There has been a great deal of debate about the best way to create an effective social housing sector. Much attention has focused on private sector solutions (the most politically acceptable method) but increasingly, an awareness has developed that this route is rather expensive and not well targeted.

Housing allowances: Many governments in the region have explored the use of some form of demand-side subsidies that essentially support the housing costs of low-income families. These have taken a number of forms—decreasing the prices of services, increasing the efficiency of service providers, or targeting income support to the most needy households. There is no question that ultimately, an effective housing allowances system is needed. But, at present, central governments lack sufficient funds and local governments are unable to raise local taxes for this purpose. When 35 to 50 percent of the population qualify as poor housing, allowances in the best scenario can do little to help. It is also clear inventing a housing allowances system in isolation from the wider welfare state and social security systems is meaningless. Neither of these systems have made much headway in the context of economies that are struggling for survival and in which GDP is only now beginning to show real signs of sustained recovery.

Social housing: Support for building social housing has reappeared on the policy agendas in the last few years. Slovakia, the Czech Republic and Hungary have initiated programs through local governments to build new social housing with various incentives and programs aimed at reducing building costs and creating a stock of dwellings. These dwellings can be rented at “cost rents”—significantly lower than the private sector. Hungary plans in the next few years that as much as 15 percent of new building should be of this type. But, the fact remains: although the need for this housing is widely acknowledged, the reality is much more difficult to achieve. As Martin Lux shows (this volume), in 2000, the vast majority of new building in the Czech Republic was private-sector family houses, with only 9 percent built as flats. Lux has also discussed the development of non-profit housing associations in Poland, where good quality housing was provided at costs largely unaffordable by low-income households (Lux 2003).

Household investment: Following privatization in the early 1990s, many of the countries in the region are “super owner-occupied” with typically 95 to 98 percent homeownership. Of the countries discussed here, the Czech Republic has a *de facto* high ownership rate, as cooperative members in effect enjoy the rights of owner-occupiers. In this case, about a third of households remain as renters; the Czech Republic

thus differs from the other studies. The task in the super-owner occupied nations has been to design tax-related programs that assist access to home ownership by low-income households or support renovation and reconstruction. The difficulty has been that most countries have had to support a wide cross-section of income groups, including middle-class households unable to participate in the market. Normally what has happened is that central governments initiate programs to subsidize interest payments on mortgages in order to reduce costs to households. Other methods have been used in order to defray the heavy early costs of taking on a mortgage. In Hungary, for example, new owners were offered a discounted interest rate for the first five years of the loan (1994–1999). Support for interest rates, tax breaks on interest payments, and support to savings banks (to encourage households to save) have been very expensive—from 30 to 50 percent of budget subsidies in Slovakia and the Czech Republic. Needless to say, all these initiatives, which have been strongly politically driven due to middle-class support, have been socially regressive. The millions of low-income households across the region have been effectively excluded from the system, unable to afford to stay where they are (let alone contemplate moving) and/or take on mortgage debt.

Across the region, there is also a chronic lack of mobility partly due to the inability to move “up-market.” In this situation, the social housing that remains—and there is a significant amount in the Czech case, as there was no centralized “right-to-buy” policy—higher income households are both unwilling and unable to move. New rental supply is thus extremely limited. One interesting consequence of this is that municipal housing in the Czech Republic, more by accident than design, is much less socially residualized than in the other two countries in this report. This may have important long-term consequences (to be discussed).

HOUSING MARKET RIGIDITIES

Housing market rigidities are at the center of the problems faced by all the newly emerging housing markets of the region. These arise from a number of sources. One problem is the simple lack of supply of properties, due to the collapse and very slow recovery

of the building industry in the 1990s. All the research studies and the projects outlined in this publication share this feature. What little house building there has been is wholly inadequate in scale to meet demand, and the large bulk of what has been built has been in the profitable up-market, detached housing sector. Rather less well known is the extent to which the legacy of state socialism continues to stifle the emergence of properly functioning housing markets. This arises from the continued lack of regulated and institutionally supported mortgage products. These are beginning to have a presence in some EU accession countries, but low-income households have no hope or expectation of raising mortgages to support moves. There is still insufficient knowledge about the income profiles of households, and this lack of accurate data makes detailed analysis of housing markets nearly impossible.

It is very clear, however, from these reports that a major stumbling block to unlocking these markets arises from the distribution of housing under the old system, producing a situation in which many low-income households live in flats that are valuable by current standards. These households have managed to retain a relatively good position in terms of the type and location of their flat, although incomes have fallen and housing costs have risen. Some studies show that housing and heating costs in the winter have reached as high as 80 percent of income. People below the poverty line thus endure cold winters, overcrowding and high service charges—but hold on to the only valuable thing they have: their flat. Meanwhile, elsewhere, and in less desirable locations, better-off households are frustrated in their desire to move up-market. State socialism bequeathed a legacy of millions of uniform flats in blocks. Built in the 1970s and 1980s, large quantities of uniform flats have created a housing market log-jammed with middle-range properties but lacking any substantial quantity of up-market property, inhibiting the natural movement of households in a position to increase their housing consumption. Some evidence of renovation and new building suggests that this problem may slowly resolve itself—but over many years. The other danger in this situation, for which there is some evidence, is that low-income families will in the end drift, out of sheer necessity, to worse areas—thereby creating a population flow to poorer economic regions and gradual social residualization (Szekely 2003).

The low level of housing market activity, even in countries where economic growth has been restored, is matched by a low level of mortgage lending (even lower than housing market activity *per se*). Governments pour their very scarce resources, under pressure from populist public opinion and facing up to their electorates, into regressive and poorly targeted housing subsidies. It is common for low-interest loans to support the incomes of middle-class families and certainly very unlike the housing finance arrangements that are common in Western Europe.

The regressive nature of these subsidies is one of the major issues that needs to be dealt with in the next few years, and involves governments and political parties in some politically difficult judgements. Efficient market performance hinges on the development of properly performing legal regulation and the legal protection of private interests. Acceleration here is vital, even though such initiatives are invariably absent from the policy agenda or it is simply misunderstood how thoroughly regulated western (housing) markets operate.

The basic story in many of the super-owner occupied nations is one of extreme difficulty for households to invest in moves up-market or to invest in the maintenance of their existing homes. The impoverishment of very large proportions of the population coupled to the rapid increase in utility charges, especially electricity, limits the ability of households to save, including medium-income middle-class families. With the absence of mortgage products, the only ways to move on is through self-help, advantages transferred from elsewhere in the extended family, or impossible borrowing from banks (which demand large deposits, high interest and short maturity periods).

THE PRIVATE RENTED SECTOR

All the studies in this volume note that the least-regulated housing sector is private renting. In a normally functioning private market, there would be an expectation that the private rented sector (PRS) would reemerge after having been suppressed under state socialism. The emphasis during rapid privatization was on the creation of mass home ownership; evidence from the single country case studies suggests that a formal housing sector has not been revived.

On the other hand, as was always the case, there is evidence of a thriving informal market, often charging very high rents. Djordjevic indicates that inside the private sector in Serbia, as much as 10 to 15 percent of households (7 percent of flats) live in the private rented sector, and pay up to 60 percent of income in rent. In Budapest and in Czech cities and towns, there is a similar story of continuing inability of the local authorities and wider governments to regulate the PRS and bring it into the mainstream of the tax system.

TWO MAJOR PROBLEMS

Low-income families simply do not figure on the housing policy agenda. In countries that have moved away from supply-side subsidies (the majority), evidence suggests that it is only a few targeted households that might benefit—those with disabilities, some pensioners, the Roma—and that the “ordinary” poor remain outside the remit of the skeletal housing allowance programmers. They are too poor to move, and too poor to stay. Two major problems that are common across the region are: increases in utility charges; and the repair and maintenance of the high-rise housing stock. Electricity charges have come in line with global pricing in the last couple of years. Elbers and Tsenkova report that in Bulgaria, 589,000 households have been threatened with termination of electricity due to unpaid bills, and in several smaller towns, communal central heating systems have been turned off due to voluntary refusal of the service (Elbers and Tsenkova 2003, 123). Kocsis (this volume) suggests that housing costs for the bottom income quintile in Budapest comprised nearly 50 percent of household income. Similar evidence has been found by Djorjevic (this volume): 24 percent of income in Serbian urban centers is spent on housing costs/utility charges, while 17 percent of households have one or more utility bills unpaid.

Another problem is the huge legacy of repair and maintenance accruing in the housing stock, especially the high-rise blocks built from 1960 to the 1980s by state enterprises following Soviet models. Many experts regard this to be of greater importance than new building. Having become mass home-owning societies, there is rarely any provision made through con-

dominiums or other organizational structures for the maintenance of the common areas and the structures of the buildings—many of which, especially in south-eastern countries, were very poorly constructed in the first place. Run-down multi-family blocks occupied by destitute low-income households are in a spiral of decline. In Romania, for example, one study reported an urgent problem arising from substandard infrastructure and structural deficiencies in over 17,000 blocks built in the early 1980s (Budisteanu 2000)

CONCLUSION

The result of the rapid withdrawal of the state from the housing sector in the 1990s, very slow development of market institutions and informal market activity (with widespread unplanned and illegal building, particularly in southeastern Europe) caused urban life to be dominated by a rampant private market. As well, it affected the emergence of overwhelming problems of deprivation in many of the mass housing estates occupied by a largely destitute population. To a greater or lesser extent, this was the position of the three cases presented in this volume.

Nearly fifteen years on from the collapse of state socialism the true nature and scale of the socialist legacy is only now being realized. In the area of housing policy, distinct clusters of nations have emerged. Perhaps the most distinctive (in Slovakia, the Czech Republic and Poland) retains significant parts of its rental housing. Housing policy in this group has the prospect of evolving into “unitary rental” markets, similar to the Germanic social market model (in which the public and private rental sectors compete with each other and owner occupation is not the dominant force). Societies dominated by owner occupation tend to operate less socially organized rental systems, deferring to the homeownership ethic. It should be noted that all the English-speaking homeownership societies in the “West” operate low tax/low spend residual welfare states. The connection between homeownership and this sort of welfare settlement is not coincidental; rather, it arises from the high costs of owner occupation and its impact on disposable income (Kemeny 1981). The implications of this for the super owner-occupied nations of Central and Eastern Europe should certainly not go unnoticed.

More immediately, it is not difficult to see that a great deal remains to be done to meet the housing needs of these societies. All three studies in this collection broadly conclude the necessity for a package of measures that include:

- A legal framework for housing that helps to develop market-orientated institutional structures (functional mortgage products, regulation of the rights of landlords and tenants in the PRS, and so on) and measures against tax evasion, arrears, or illegal building;
- Measures to encourage the re-establishment of rental housing, especially social rental stock to provide support for low-income households. Similarly for low-income owner-occupiers, institutional support structures such as condominiums are crucial for re-establishing and re-engaging the people with basic ideas of governance;
- A means for tackling the massive backlog of repair and maintenance in the high rise housing stock, much of which is urgently in need of structural work; and
- A realization of the inevitability of homeownership, and the development of subsidy systems that are less regressive and channel support to low-income owners. The need for properly funded housing allowances is imperative, although it is pointless to design such a scheme in isolation from the wider social security net.

A core lesson to be gleaned from this volume and the relevant literature on housing in post-socialist Europe is that “housing” is part of a complex agenda of economic and political reconstruction. It cannot be treated in isolation from the bigger picture. The havoc wrought by state socialism on living standards, governance and the general well being of regional societies will not be repaired in years, but rather over multiple decades. The situation is not at all like the position of Germany after the Second World War: there, post-war recovery and reconstruction was rapid and well funded.² A similar passage of time has already passed following the largely peaceful decline of state socialism. It is clear that the economic globalization presents the newly democratizing nations of Europe with a much less supported economic and political environment. Even the post-socialist states that are

now members of the European Union (as of May 1, 2004) are not in a particularly favorable position. For all the rhetoric of free trade and openness, most of the existing fifteen member states have established five- to seven-year barriers against citizens of accession countries working in their country—let alone receiving social security benefits—fearing a tidal wave of economic migrants.

Internally, there has been major investment. The Czech Republic produces more cars than any other European state; Peugeot is currently building a huge factory. But, external manufacturing investment of this type already shows signs of slowing down; there has been a discernible shift toward non-EU, post-socialist nations, where restrictions on labor costs due to EU regulation do not yet exist. International capital is particularly footloose in this historical era. It is the

outcome of how this narrative of economic recovery unfolds that will be the key to what happens in social policy and more particularly in the housing systems of post-socialist Europe. It is, however, very clear from these studies that “politics matters.” The policy decisions currently being taken by the governments and municipal authorities of these three countries are already “path dependent.” How Hungary, Serbia and Czech Republic will navigate their way through future changes and developments has been shaped by the previous fifteen years; it seems increasingly likely that they will continue to diverge from one another. The hard fact is that, at the moment, a very large part of the population are untouched by policies, and are “too poor to move and too poor to stay.” This is likely to be the case for many years to come.

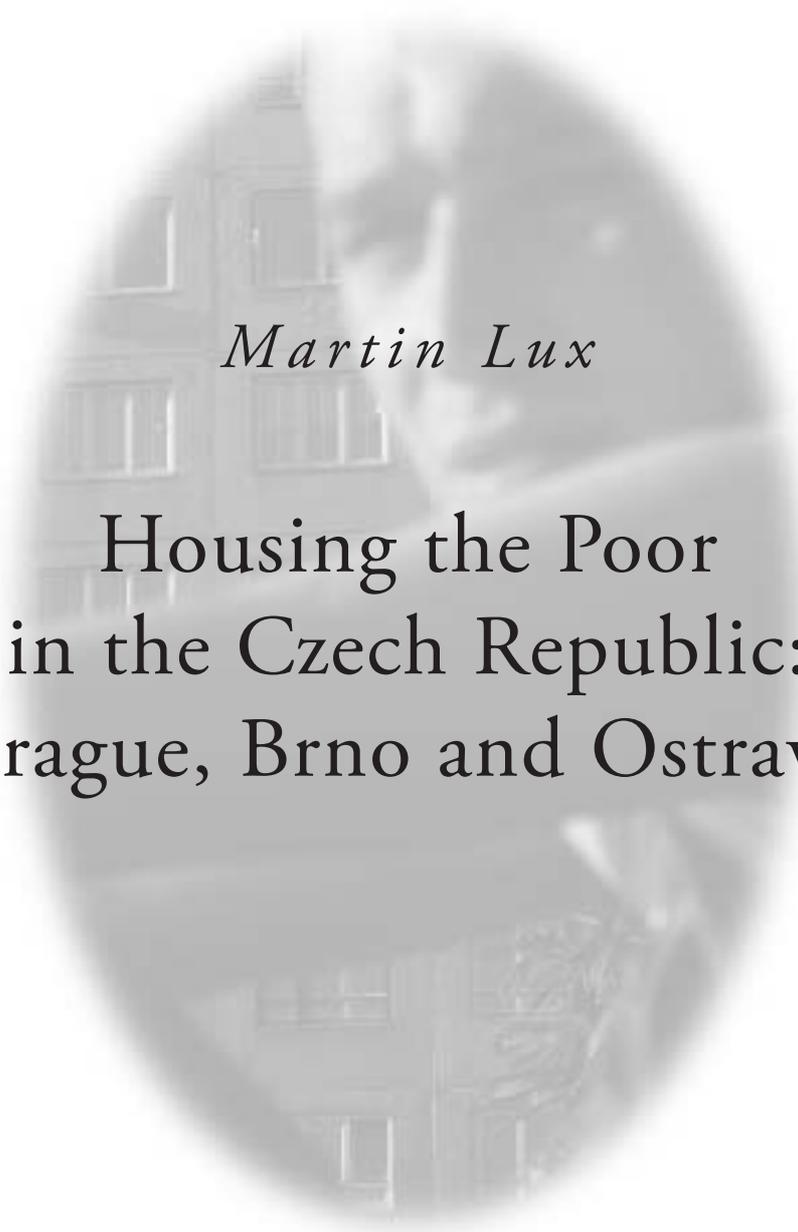
NOTES

- ¹ The Council for Mutual Economic Assistance (COMECON), 1949–1991, was an economic organization of the socialist bloc countries and a kind of Eastern European equivalent to the European Economic Community.
- ² This is partly because Germany was the main European bulwark against the socialist bloc. Germany thus became the most powerful economy in Europe by the early 1960s.

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TOO POOR TO MOVE, TOO POOR TO STAY



Martin Lux

Housing the Poor
in the Czech Republic:
Prague, Brno and Ostrava

A REPORT ON HOUSING IN THE CZECH REPUBLIC, HUNGARY AND SERBIA

Housing the Poor in the Czech Republic: Prague, Brno and Ostrava

Martin Lux

1. HOUSING UNDER STATE SOCIALISM

Under state socialism, housing in the Czech Republic was subject to tight, centralized control. With the exception of family houses, the entire privately-owned housing stock was nationalized. Subsequently, the creation of new housing cooperatives was allowed, but all rents were controlled by the state. As a result of extensive housing construction financed from the state budget, the share of state rental flats in the total housing stock grew rapidly. Four types of housing predominated: state rental flats; rental flats owned by state enterprises; cooperative rental flats; and privately-owned family houses. Tenants of both state and enterprise flats had neither ownership rights nor duties, but they had a “decree” claiming their right to stay at the flat for an “unlimited time” and, moreover, they had an automatic right to transfer the “decree rights” to their children.

Cooperative housing was based on the notion of “collective investment” by cooperative members. Each citizen could become a member of one of the cooperatives by paying a membership fee. Although the construction of cooperative houses was partially subsidized by the state, residents had to cover a substantial part of the construction costs themselves (in some cases by cash payments, in other cases by unpaid work during the construction of the house). The flats were owned by cooperatives and the members of the cooperative did not have any disposal rights to their cooperative flats. (For example, they could not sell them on the open market). Owner-occupied family houses represented the last legal form on the housing market under state socialism.

2. HOUSING DURING TRANSITION

2.1 Housing Development and Construction

According to Terplan’s estimate (Andrle and Dupal 1999), from 1991 to 1999, the number of households in “involuntary cohabitation” increased from 170,000 to between 280,000 and 300,000 households (representing currently 7 to 7.5 percent of all Czech households). Housing construction, however, decreased sharply immediately after 1990 (Table 1). The number of completed dwellings reached its low point in 1995. Since then, there has been steady growth in the number of housing unit construction started annually.

The decrease in housing construction in the first half of the 1990s was caused mainly by the termination of state housing construction and the withdrawal of public subsidies. The rapid liberalization of prices sharply increased construction costs and raised prices of new housing. Sýkora writes: “The market could not react in an environment of huge disparities between housing need and demand and the government was not willing to bridge the gap between the high need (but low purchasing power) of households and the sharply increased costs of housing production” (2003). Though the introduction of some housing policy programs (to be discussed) to stimulate housing consumption positively influenced the scale of housing construction, new housing remained affordable only to a small segment of the Czech population. The demand of higher income households and individuals was saturated, while the share of population that could afford new housing did not increase. New housing was primarily family houses and ownership flats. The share of rental flats of total housing starts was only 9 percent in 2000. Private companies or individual investors now build most housing.

Table 1
Housing Construction in the Czech Republic
(number of dwellings), 1990–2001

Year	Number of dwellings		
	Started	Under construction	Completed
1990	61,004	158,840	44,594
1991	10,899	128,228	41,719
1992	8,429	97,768	36,397
1993	7,454	72,356	31,509
1994	10,964	62,117	18,162
1995	16,548	66,172	12,662
1996	22,680	74,726	14,482
1997	33,152	90,552	16,757
1998	35,027	103,191	22,183
1999	32,900	112,530	23,734
2000	32,377	118,785	25,207
2001	28,983	121,705	24,759

Note: Apartments in extensions of existing buildings, houses for the elderly with social services, and those adapted from non-residential premises have been included since 1996.

Source: Czech Statistical Office.

In 2001, there were 4,369,239 dwellings in the Czech Republic. This number has increased by 292,000 since 1991; permanently inhabited dwellings per 1,000 inhabitants increased from 360 in 1991 to 372 in 2001. There are other dwellings that serve residential purposes, but their inhabitants do not permanently reside there. If all dwellings are taken into account, there are now more than 420 dwellings per 1,000 inhabitants.

2.2 Decentralization and Privatization

Transition in the Czech Republic has been characterized by, among other things, the decentralization of powers from the central to local level of public administration. Decentralization in housing policy began in 1991, with a massive transfer of 877,000

dwellings (23.5 percent of the dwelling stock) from state to municipal ownership. It was expected that the local governments would become the major administrators of housing policy. However, the transfer of properties was not accompanied by adequate financial means. The management and maintenance costs were, in most local governments, higher than revenues and housing became a heavy financial burden for the municipal budgets.

Many state-owned blocks of flats were returned to their previous owners or their descendants by restitution laws. The government, however, decided to maintain the system of state regulation of rents in restituted houses. Enterprise-owned housing practically ceased to exist as virtually all enterprise flats were sold to private owners when the enterprises themselves were privatized. Table 2 indicates the changes in tenure structure between 1991 and 2001 (the most recent census). The decrease in the share of rental housing and the increase in homeownership were caused by the privatization of municipal (former) state housing. The Act on Ownership of Apartments and Non-Residential Premises, approved in 1994, offered the possibility of selling individual dwellings in an apartment building. This law affected public and private sector rental housing as well as cooperative housing by permitting them to be transformed into condominiums (homeowners associations). From the local government perspective, it created the opportunity for municipalities to sell individual flats. Before approval of the Act they could only sell the whole residential buildings, usually to a cooperative formed by tenants.

Municipalities now can freely decide on the conditions and scale of housing sales. No central “right to buy” legislation (as in the UK, Hungary, Estonia, Russia, Romania, or Albania) was implemented, and the state did not press local authorities to privatize publicly-owned housing. Different models of privatization, therefore, have been applied with various outcomes. Sýkora suggests: “Most towns prefer sales of individual flats, however, large cities, such as Prague and Brno prefer sales of entire residential buildings. About half of the former (pre-privatization in 1991) municipal housing stock was transferred to private ownership, with over 40 percent through sales of municipal housing and the rest by restitution” (2003).

Table 2
Changes in Tenure Structure, 1991–2001

Tenure	1991 ¹⁾	1994 ²⁾	2001 ³⁾
Homeownership	43.25	42.0	46.8
• in own family house	40.57	40.0	35.8
• in own apartment dwelling	0.80	2.0	11.0
• other homeownership	1.88	—	—
Rental housing	56.59	57.0	46.0
• cooperative housing	19.83	19.4	14.3
• municipal and state housing	35.65	27.0	—
• private rental housing: family houses	—	2.0	28.6 ⁴⁾
• private rental housing: apartment houses	—	8.0	
• cooperatives of tenants (privatized public housing)	—	0.4	3.1
• other rental housing (enterprise housing)	1.11	—	—
Other tenure	0.11	1.0	6.7
Total	100.00	100.0	100.0

¹⁾ Czech Statistical Office (1991): *Census 3.3. Statistical Yearbook 1993*. Prague: Czech Statistical Office.

²⁾ Czech Statistical Office. *Survey on Housing Stock Structure*. Prague: Ministry for Regional Development. <http://www.mmr.cz>.

³⁾ Czech Statistical Office (2001): *Census 3.3*. Prague: Czech Statistical Office. <http://www.czso.cz>.

⁴⁾ The figure shows the common share of municipal/state and private rental housing on total housing stock. The more detailed tenure structure is not, however, available.

2.3. Central Government Housing Policy

2.3.1 Housing Legislation

The law on the transformation of cooperative housing changed the status of housing cooperatives. The primary objective of the Transformation Act was the privatization of cooperative housing stock into the hands of cooperative members who lived in cooperative flats. Members of the cooperatives obtained the right “to sell” their share in the cooperative (connected with the right to occupy the cooperative flat) on the open market. Until 1995, cooperative members were able to apply for the transfer of their cooperative flats into private ownership. The overwhelming majority of cooperative members took advantage of this. Consequently, cooperatives became more or less a part of the homeownership sector and can no longer be classified as purely rental housing.

In the restitution process, properties confiscated by the Communist regime or given to the state under disadvantageous conditions between February 1948 and December 1990 were returned to original owners or their heirs. Most of these transfers were accomplished by the end of 1993. It is estimated that roughly 10 percent of the dwelling stock, mainly in the central parts of towns, was restituted. Restituted houses could be immediately marketed which supported the creation of a real estate market.

The government decided to maintain the system of state-regulated rents, not only in municipal flats but also in restituted buildings. In 1993, market rents were permitted if the tenant was not a citizen of the Czech Republic, if the flat had been vacant before the tenancy began, or if the dwelling was a privately-owned family house. The market rental sector made up only about 5 to 10 percent of the total rental stock in 2001. Regulated rent for the average rented

flat rose from CZK 170 in 1990 to CZK 1,021 in 1998 (approximately an increase of 600 percent in nominal terms). However, in real prices, the increase in rents does not seem to be so dramatic: the rent price increased only by CPI (inflation) would attain CZK 654 in 2000; the real average rent price rose 87 percent. Moreover, average regulated rent is still only one-fifth of the average “market”¹ rent in 2001. The maximum price of monthly-regulated rent per square meter of dwelling floor area was calculated according to several government edicts before they were all abolished by the Constitutional Court. Since then, regulated rent prices are frozen until the new Rent Act is passed by Parliament. (The definite version of a new act was not known at the time of writing.) According to the *Local Government and Housing Survey*, conducted among municipalities with more than 5,000 inhabitants, about half of municipalities state that current regulated rent is still below the level of the average economic rent; that is, the rent is not high enough to cover management and maintenance costs (Sýkora 2003).

The rent setting mechanism based on the overall non-targeted rent regulation does not reflect the different costs of operation in different localities. Regulated rents are not well targeted with respect to household income and tenure (Lux 2002). Regression analysis using the Regional Differences in Housing Prices 1996-97 data set² allows for comparing the difference between the market and controlled rent for an average household in municipal rental housing (such as the average “hidden subsidy” to tenants living in municipal flats): according to the results, higher income households profited more from rent regulation in municipal flats than lower income households did (Lux and Burdova 2000).

The title (possession of decree) on a rent regulated flat has remained transferable to family members, exchangeable with some other “owners of the decree” and tradable on the black market. The amendments of the Civil Code in 1991, 1992 and 1994 did not eliminate inappropriate tenant protections that would allow a more efficient functioning of the rental housing sector. Judicial procedures are very slow (the eviction of tenant refusing to pay the rent takes several years) and concerning the tenant protection issues, they are not unified in practice. There are no central explicit rules for allocating vacant or new municipal

flats that would restrict the municipalities’ choice of tenants. No proposal of the new Rent Act counts with the definition of social/affordable housing (with special price and income conditions).³

In May 2000, a law setting up a State Fund for Housing Development was adopted by the Czech Parliament. The Fund should cover part of the housing construction or reconstruction costs by providing grants and preferential loans. Even though the aim of the Fund was (according to the Government Housing Policy Strategy) to support new rental housing construction, its activities are not limited to a specific housing sector. The extent of the subsidy is not indicated in the law which only specifies that subsidies will be partial. There are no further conditions to be fulfilled by applicants (income ceilings) to obtain subsidies or qualified loans for the reconstruction or construction of the flats and houses. There were no sources in the Fund for a long time. In fact, its activity actually started in 2001 when it received the government revenues generated from privatization of large enterprises (much lower than it was originally expected). Other than providing loans and bank guarantees on regeneration of prefabricated housing, the Fund allocates also qualified loans at a 3 percent per annum (p.a.) interest rate for young people (under 35 years of age) and gives the interest subsidies on mortgages for young people (from 1 to 4 percentage points).

A law on new “social” housing associations is in the early stages of preparation. The proposal of the Ministry for Regional Development is waiting for the parliamentary discussion. According to the current proposal, social housing associations’ activity and financing would be based on the financial participation of individual members of the association. This means that the legal form of new housing associations would be very close to the cooperative form and future tenants will become cooperative members as well. The housing associations would operate on a non-profit basis. The municipality or other legal person (five, at least) could also become shareholders. Rents will be regulated and the construction costs will be partially covered by a grant from the State Fund for Housing Development. As the proposal is in the initial stage of preparation, there is no further precise information—such as conditions to be fulfilled to obtain the subsidy or qualified loan, the size of the flat and normative

costs per square meter, or details on rent setting and subsequent rent increases.

However, it is now clear that the allocation of new “rental” flats will not be limited by means testing and will not be legally restricted to middle- and lower-income households. The hybrid character of “collective ownership” in the case of housing cooperatives even does not allow higher targeting of public subsidies to those in higher need. It is mistake, this study argues, that the form of pure rental housing is not incorporated into the proposal. We can expect that public subsidies originally designed for rental housing will finally support homeownership with no regard for social or income criteria.

2.3.2 *Housing Policy Programs*

State support for housing was substantially restructured during the 1990s. The former system of housing subsidies ceased to exist and new programs were introduced. These include the support given for housing consumption (support for housing savings and to mortgages) as well as the support for the production of new housing. The state now subsidizes construction of new municipal rental housing, housing for the elderly and gives provisions for technical infrastructure for all kinds of housing construction. Furthermore, several programs aimed at the repair and modernization of prefabricated housing stock have been introduced. The state has also provided a long list of tax relief measures (such as relief of mortgage interests and tax exemptions from property tax on privatized or newly built homes). Special programs were applied in specific instances to assist with flood damages in 1997 and 2002. The programs are discussed below.

First, a program for support of **municipal rental housing construction and technical infrastructure provision** began in 1995. The aim was to provide support to local authorities to fulfill objectives concerning new housing construction and increase the availability and affordability of housing. The subsidy is given for the following:

1. The construction of new municipal rental housing, construction of attic apartments in empty under-roof spaces, reconstruction of non-residential spaces into housing and reconstruction of dilapidated houses that have been vacant and uninhabited for at least five years.

2. Technical infrastructure (engineering networks, sewage system and roads) on vacant land zoned for future housing construction of all forms (including private).

Support for municipal rental housing had a maximum of CZK 320,000 per flat,⁴ and support for reconstruction of residential spaces that had not been used for more than five years could amount to CZK 200,000. Finally, support for technical infrastructure had a maximum of CZK 80,000 per future flat. This program has facilitated construction on 5,000–8,000 flats annually.

Prior to early 2003, there were no limitations concerning the maximum cost level per square meter, the maximum area of the dwelling, or the income ceilings used for future allocation of flats. Though the maximum rent price was settled at three times the regulated rent price, the additional financial means (50 percent of construction costs) were often paid by future tenants (in fact members of cooperatives) and not by municipalities themselves. The character of rental housing was limited only for the period of 20 years and after this period the flats could be transferred into the full ownership of tenants. Thus, quite spacious and comfortable dwellings were sometimes constructed (especially in Prague and Brno) that did not ultimately serve as classical rental flats. They had the character of quasi-ownership dwellings, as new occupants were assured free transfer of flats into their ownership after 20 years. Very low social effectiveness of the subsidies (no income or other social criteria applied and relatively large co-financing requested from future tenants) combined with low economic efficiency (in some cases the subsidies only increased the profit of private developers and did not decrease the price) led to the changes in program that were introduced in 2003. The amount of state subsidy increased, but the cooperative form was forbidden and an income ceiling as well as costs per square meter limits were introduced. It is too soon for evaluation, but with changes, the program may become an effective tool for the “housing poor” (socially disadvantaged households) and similar areas.

Second, a program for the support of **construction of housing with social care** was introduced in 1991. This program provides subsidies to municipal governments for the construction of rental housing with a

special social regime that consists of small apartments for the elderly and handicapped and a provision of social care support. The primary goal is to provide housing for those persons who, due to health or age, require social care. As well, the program description confirms the objective of supporting higher vacancies in municipal dwellings that could be allocated among those who have low access to housing on the open market, such as the housing poor (filtering). The total amount of finance in this scheme has been declining since 1995 and the program finished in 2002. Since 2003, it has been incorporated into a new program on “supported housing,” to be briefly discussed.

In 2001, sources allocated from the Ministry for Regional Development and the State Fund for Housing Development for this program allowed for the construction of 1,415 new flats in houses with social care support. Since 1995, about 7,500 of dwellings in houses with social care have been raised. There is some information, though unreliable, that the program really helped to support the filtering process and more municipal dwellings could be allocated among other people in social need. The program also pushes municipalities to prepare and pass local housing policy strategies and to define the priorities and main target groups in the field of housing policy. The question raised currently concerns the number of people that are in need of permanent social care; estimates shift from around 5 to 19 percent of the total population. In some cases, municipalities allocated new flats also among those people that do not need permanent social care and only are of higher age. Naturally, the number of applicants exceeds the possibilities of municipalities (in Prague, more than twice).

Third, a program in support of **housing savings** is based on an Austrian and German model (*Bausparkasse*) and was introduced in 1993 to stimulate housing consumption. Each citizen can deposit a certain amount to housing savings banks. On top of the interest on the savings given by the banks, the state gives a premium equal to 25 percent of the annually deposited sum (since January 2004 this may change). However, the premium is given at a maximum of CZK 4,500 per year. After five years, credit equal in value to the savings amount is available at 5 to 6 percent interest (the interest can be deducted from income tax). Loans can be used for the purchase, construction or reconstruction of housing. If the person

does not apply for the loan, the savings (together with the state premiums) could be used for any purpose.

The system of housing savings played a very important role at the beginning of transition, when mortgages were not introduced and/or unaffordable for 95 percent of the population. The annual inflation was high and the interest rate on housing loan, at 6 percent a year, was very advantageous; currently, however, several banks provide mortgage loans and interest is often lower. The number of people using the housing savings scheme just for the purpose of savings is increasing. Moreover, it has become the most expensive program of state housing policy: in 2001, the state (via the Ministry of Finance) spent almost CZK nine billion on savings premiums (almost 41 percent of all state housing expenditures); in 2002, the state budget allocated for the same purpose almost CZK thirteen billion. Though it is a relatively well known program used by many young households when buying/reconstructing a first flat, the loan volume together with the savings is relatively small and other loans are also needed. It is also necessary to point out that the state premium is allocated also to those savers who will not ask for a loan and who will not use savings for housing purposes (“good brothers”). The program is thus not very transparent. As well, due to low level of loan extending (only about one third of clients ask for a loan when they finish their saving cycles) the economic efficiency of the program is probably low. Under the reform of public finance, the new conditions are prepared to be introduced from January 2004.

Fourth, a **housing allowance system** was introduced in 1996. It failed, however, to meet its social objective and does not correspond to the models used in the EU. Owner-occupiers and tenants are qualified for the housing allowance if their income falls below 16 percent of a minimum subsistence income in the last quarter of a calendar year.⁵ The allowance is allocated with no regard to real housing costs. If a household has a real income equal to zero, the allowance is equal to the normative costs. On the other hand, if it has a maximum income (1.6 times the subsistence minimum), the allowance is zero. The space for variation is very small.

The current allowance model may be effective only where non-targeted “first generation” rent control is applied on the dominant part of the rental

stock. Even in this situation, however, there is an equal distribution of allowances among households with high rent-to-income ratios and low rent-to-income ratios (real housing expenditures are not taken into account and the decisive factor is only the income of household). The allowance thus does not effectively serve to increase financial affordability of housing in general; it is allocated among those who do not need help (with low rent-to-income ratio) and among those who are in need (young people living in the market rental sector or pensioners with high rent-to-income ratio). In 2000, the allowance was provided to 332,000 households (8.2 percent of the total number of households according to 1991 census) with the average value of CZK 633. State expenditures reached CZK 2.5 billion.

Fifth, **interest subsidies on mortgages for young starters** were introduced in September 2002. The interest subsidies to mortgage loans are offered to young people without their own permanent housing and below the age of 36 on mortgage loans used for the purchase of older dwellings. The interest subsidy varies from 1 to 4 percentage points, depending on the general level of mortgage interests (in 2002 the subsidy was equal to 3 percentage points) and it is fixed for a maximum of five years. The subsidy is allocated for the whole period of loan repayment with maximum of ten years and loan ceiling. The dwelling must be older than two years, and it must serve only for the purpose of permanent housing of applicants (it cannot be sold during the period of loan repayment). The subsidy allocation is agreed between applicants and those banks that have special agreement with the Ministry for Regional Development (eight commercial banks).

Though it is too soon to evaluate this program, it can be assumed that it will have a positive influence on the affordability of owner-occupied housing for young households. The current interests on mortgages can be lowered with the help of interest subsidy to the level of 1 to 2 percent per year interest on mortgages can be deducted from the income tax base, and such soft loan conditions are very attractive. According to the information from several banks, there are tens of mortgage loans with the state subsidy extended each day (2003). The interest subsidies are designed for the purchase of older dwellings and prices of older dwellings are lower (sometimes substantially lower) than

prices for new housing. However, from the point of view of the real housing poor, most of whom can only dream about mortgage loans, this program is again not effective. The support of homeownership can help only those people with middle incomes or with the substantial help of larger family.

Sixth, in early 2003, the Ministry for Regional Development introduced **supported housing** with the aim to provide shelter or housing with social care for those at a disadvantageous position in housing market, due to: age (elderly); social position (Roma minority, homeless, former prison inmates); income (unemployed, young); family status (divorced); or health (handicapped). The program includes different types of housing: shelters for the homeless; "on the half way back" housing for former prison inmates; starting flats (for homeless obtaining jobs and leaving sheltered housing, or youth from children's homes without family); housing with social care (mainly for the elderly and handicapped); and integrated "villages of cohabitation" (such as for the Roma minority). The state supports new construction (or reconstruction of non-residential houses) with grants up to CZK 500,000 per housing allocated only among municipalities. Municipalities will have to cover the rest of expenses. The program lists the target groups of population, but municipalities will set the particular projects as well as allocation criteria themselves. The housing service must always be accompanied with a social care and/or socialization program.

The main conditions of the program seem to be set in an effective and efficient way. In fact, this is the first targeted program in the sphere of bricks-and-mortar subsidies since the beginning of transition. However, the Czech Republic lacks a forward-looking conception of social/affordable housing, including a clear definition of "levels" of need. As such, this limits the development of effective housing allowance and legislation in order to introduce, for instance, non-profit housing associations. Such associations could become the main providers of new social rental housing following the trend in most of EU countries. Some programs are very inefficient and ineffective (in regard to housing allowances, state premiums to housing savings schemes, or former programs supported for municipal rental housing construction); it takes a considerable amount of time for housing policymakers to prepare and introduce changes.

Non-targeted rent regulation remains a main obstacle to creating an effective housing market and to decreasing the level of bias in current market rent prices.

2.4 Housing Conditions

2.1.1 General Overview

After substantial changes in both the state and local housing policies, housing affordability has decreased, though not equally among all households. Due to the continuation of rent regulation, the introduction of restitution of expropriated property and very advantageous housing privatization, two different and sharply divided housing markets appeared. The overwhelming majority of the population lives in the so-called “privileged sector.” This refers to those living in:

- rent-regulated dwellings;
- owner-occupied dwellings acquired during state socialism in a completely different financial environment;

- owner-occupied dwellings acquired under rather advantageous terms by setting tenants, through the privatization of former public housing in the 1990s; and
- cooperative dwellings which acquired, in fact, an ownership title after the introduction of the Transformation Cooperative Act at the beginning of the transition.

Only a small part of the population is “forced” to live in the so-called “unprivileged sector.” This includes those from the market rental sector and those buying/constructing their housing under market terms during the 1990s. Such a division of the market has an important influence on housing affordability and consumption, mainly for newly created households (young people) who may not obtain rent-regulated dwellings due to extremely low tenant turnover and long waiting periods. On the other hand, many high-income households still profit from non-targeted rent regulations.

As Table 3 shows, late 2000, Czech households generally spent about 21 percent of their income on

Table 3
Housing Expenditures-to-Income Ratio (Czech Republic, 2000)

Social Group According to the Head of Household	Housing Expenditures [CZK]		Housing Expenditures-to-Income Ratio [%]	
	Rent	Total	Rent-to-Income Ratio	Total Housing Expenditures-to-Income Ratio
Worker	940	3,335	5.59	18.27
Employee	1,059	4,109	5.98	20.45
Farmer	889	3,180	4.96	17.67
Pensioner	790	2,285	9.48	26.15
Tenure				
• Rental	1,189	3,509	8.70	24.43
• Cooperative	785	3,508	5.47	22.24
• Own flat	615	3,346	4.62	21.62
• Own house	—	3,062	—	18.05
Total average	947	3,322	6.85	21.18

Note: “Rent,” in the case of flats in homeownership, includes regular payments for house administration and contribution to maintenance. In “complete” families, the head of household is always man, in “incomplete” families—the economically active parent. If the parent is not economically active, he/she is head of household only if children are also economically non-active. CZK 30=USD 1.

Source: FBS 2000. Calculations by authors.

housing, while regulated rents took only 7 percent of household income (Family Budget Survey, 2000). The biggest burden on household income is utility/energy payment, as prices have been completely deregulated. The average figure for total housing expenditures, however, does not show the large differences within the population. Though some inequalities may be observed from general statistics, others may only be gleaned from special investigations or personal accounts. Many social categories (such as those living in unofficial or “black market” housing, the Roma minority, the handicapped, or the homeless) tend not to participate or be included in national surveys.

2.4.2 *The Housing Poor*

Pensioners (or **seniors**) form a very special social category in the field of housing consumption and housing conditions. Many of them, according to *Living Conditions* (2001), live in apartments that do not meet current standards of adequate housing (with the toilet in the common corridor, or generally unhealthy housing conditions). Moreover, due to their age, many need special health and social care. As Table 3 shows, their average housing expenditures-to-income ratio is 26 percent, which is relatively high. The most endangered are one-member pensioner households, among which are single women. Two- or more member households attain average housing expenditure-to-income ratio

of about 22 percent, one-member male households—28 percent and one-member female households—more than 30 percent.

Pensioners, however, from all social categories of households in the Czech Republic, are among the most satisfied with their current housing (*Housing Attitudes* 2001). This satisfaction flows mainly from frequent over-consumption of housing, which is apparent not only in the owner-occupied housing, but also in the rental sector. Pensioners often own another, secondary housing for recreational purposes. In many cases, such housing is suitable as a primary residency.

The high housing expenditures-to-income ratio among pensioners is thus caused also by over-consumption of housing and little interest in moving to smaller dwellings. This is partially an inheritance of the state socialist period, when mobility was restricted and first housing was often perceived as a home for life. But, in addition, the ineffective operation of the housing market, the decreasing share of public housing caused by privatization, the absence of counseling and information agencies for elderly people to help them with administrative arrangements for any potential move, and the slow integration of pensioners into community life all present obstacles to potential mobility. Figure 1 shows the housing expenditure-to-income ratio development for pensioner households during the 1990s. The data is

Table 4
Housing Satisfaction According to Age of Respondent

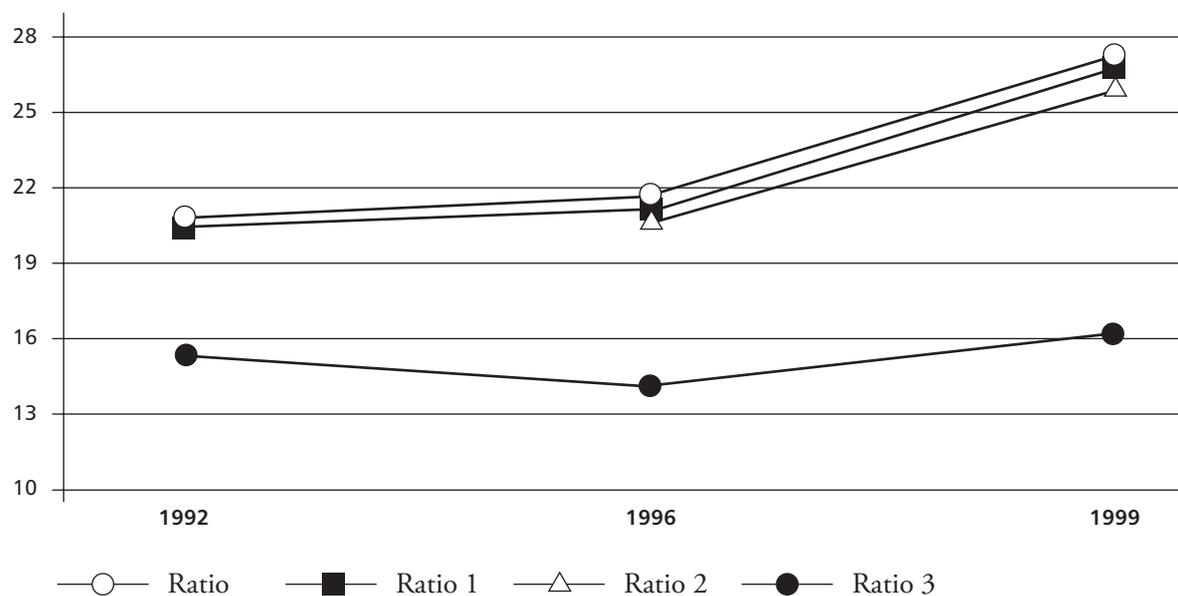
Age	All Respondents	N	Respondents Living in Rental Housing	N
18–25	4.09	540	4.82	136
26–35	3.95	719	4.55	176
36–45	3.77	624	4.68	135
46–55	3.52	599	4.39	120
56–65	3.54	618	4.17	117
66+	3.10	434	4.05	114
Total	3.71	3,534	4.47	798

Question: If you were to evaluate your satisfaction with current housing, what mark would you assign to it?

Note: On scale from 1 (very satisfied) to 10 (very unsatisfied). N = 3,534.

Source: *Housing Attitudes* 2001.

Figure 1
Housing Expenditures-to-Income Ratio Development, 1990s



Source: FBS 1992, 1996, 1999. Calculations by authors. N = 513 (1992), 498 (1996), 419 (1999).

adjusted (reduced) by various, often neglected factors: expenditures on secondary housing (ratio 1); housing allowances (ratio 2); and over-consumption (ratio 3).

Figure 1 clearly shows how “real” housing expenditures-to-income ratio would sharply decrease if over-consumption of housing were to be eliminated (on average, by about 16 percent in 1999). For pensioner households, the effect of over-consumption on housing expenditures is by far the highest of all social groups of Czech households. The burden of housing costs is affected also by non-targeted rent deregulation, realized during the 1990s. As rent regulation has been non-targeted only for or at those in social need, the process of relatively slight real rent deregulation equally affects all households in this sector. The increase in rents may be too high for poorer pensioner households.

Young people form the main social category of those who are forced to live in overcrowded housing conditions, usually at the beginning of their housing “career,” with parents, colleagues or other young people (*Living Conditions* 2001). They are also, among all Czech citizens, the least satisfied with their housing arrangements and choices (Table 4: *Housing Attitudes*

2001). Many youth, when establishing their own families and moving to owner-occupied or market rental dwellings, spend more than half of their household income on housing. Many are not low-income (due to their high level of education and career-oriented outlook); thus, they are not considered “poor” under a standard housing market environment. The lack of “starting dwellings” or “social housing” for first-time housing seekers, and the non-sustainable situation in the rental sector (combined with non-effective models for housing allowances), however, put the youth in the category of the housing poor.

The **unemployed** who are seeking housing have been negatively impacted by rent regulation as well. The current average rate of unemployment is higher than 10 percent (2003), but there are very large regional differences. Moving to a place with greater employment possibilities, however, means losing the right to a rent-regulated flat, with no right to a rent-regulated flat in the new location. As a result, mobility rates are very low.

The **homeless** comprise the subject of increasing public concern in Europe in recent years. Yet, homelessness in the Czech Republic is still regarded

as a marginal social problem. Under state socialism, homelessness existed only in hidden forms. After 1989, the number of people without permanent housing increased, due to lower public expenditures in the field of new housing construction, unemployment, slight rent deregulation, and more active local policies toward rent arrears. As will be illustrated, the number of homeless in the Czech Republic is relatively small, estimated at 3,500 in Prague and 100-300 in Brno and Ostrava.

No definition of homelessness has been accepted on the central level. Obadalová writes: "As there is not a statutory obligation to assist the homeless in the Czech Republic, there does not exist an administrative definition of homelessness either ... Defining who is homeless would imply the responsibility to undertake some action to reduce homelessness and so commit public sources to the solution of the problem" (2002, 32). For the purpose of this study, we use a narrow definition of "homelessness" to refer to those who are "roofless," without shelter of any kind (including emergency/temporary accommodation).

There has been no systematic research of homeless people in the Czech Republic. In western countries, it is estimated that 30 to 90 percent suffer from mental illness (Elliot and Krivo 1991, 115-116). This can not be confirmed in the Czech Republic. Obadalová (2002) suggests the following as the main factors contributing to homelessness: unemployment (and urban migration to seek employment); low level of education (estimates indicate that 56 percent of homeless have only elementary education); and family breakdown (men evicted after a divorce). Alcohol, drugs and gambling are interconnected with the issue, but it is not possible to say if they are causes or consequences of homelessness. Many are often now aware that they are entitled to a minimum income ("subsistence minimum"). However, they can apply for public support only in the case of permanent residence. This is very problematic if they "reside" in an other city.

Each large municipality (Prague, Brno and Ostrava) has established a so-called Social Aid and Prevention Center, including both municipal and private non-profit organizations, to provide accommodation for those in a situation of housing crisis. Some of the biggest organizations are members of the Association of Homeless Shelter Operators; three are members of the European Federation of

National Organizations Working with the Homeless (FEANTSA). They offer a range of services: advice; assistance with resettlement; day centers; night shelters; lodging hostels; halfway houses; and so on.

According to the 2001 census, there are approximately 11.4 thousand (0.1 percent of all Czech citizens) **Roma** living in the Czech Republic. The actual size of the community is difficult to calculate. Many are registered as Czechs, and others as Slovaks. Some are not registered at all. Based on information from Roma advisers (working in several district offices until early 2002), population transfers between the Czech Republic and Slovakia are common. During the 1990s, a flood of Roma households left the Czech Republic (mainly to Canada and UK); many have returned.

According to a survey by the Ministry for Regional Development on housing conditions and attitudes, more than half of all Roma live in municipal rental housing, and one-third live in dwellings of the lowest (fourth) quality. Nearly one-third of Roma respondents found their dwelling too small for the size of their household.

In connection with the problem of rent arrears, the term *holobyť* (shelter) has recently come into use. This refers to housing of a very basic standard (one room, common bath and kitchen) in abandoned buildings (former industrial buildings and empty lodging houses) or in new, very basic buildings at the edges of cities, occupied by those who are evicted for non-payment of rent. Most of the occupants of these buildings are Roma. Basically, these structures are municipally-owned. Evidence shows that in 112 Czech municipalities, approximately 33 percent of these municipalities had such shelters in 1997.

There were several examples of active and innovative approaches to the solution of Roma housing problems: individual social work; or participation in construction/reconstruction of housing. In particular, these include the Community Housing Project in Brno; construction of asylum housing in Havířov; construction of family houses by Roma in České Budějovice; construction of an integrated "village of cohabitation" in Ostrava; and social housing in Štětí. Brno and Ostrava examples are described in Chapter 3.

Among the housing poor, therefore, are: pensioners; young people; unemployed; homeless; and Roma. Other special categories like single mothers

or victims of domestic violence are also considered in this research. It is necessary to point out that even within these categories, there are sizeable differences in incomes and the scale of social need.

3. LOCAL HOUSING CONDITIONS AND POLICIES: PRAGUE, BRNO AND OSTRAVA

3.1 General Overview

The Czech Republic consists of about 6,230 municipalities and fourteen regions, each with elected representation. Prague, the capital, and sixteen other so-called “statutory towns” are further subdivided into boroughs. More than 70 percent of the population is urban, and 63.6 percent of all inhabitants live in towns and cities with a population of more than 5,000. At the same time, 60 percent of municipalities have fewer than 500 inhabitants.

Former state housing was transferred to the ownership of municipalities in 1991; the field of housing is the independent responsibility of local governments (Act 367/1990). Local governments, therefore, are responsible fully for: preparing and introducing housing policy strategies; managing and privatizing municipal housing; and constructing and allocating new municipal housing and vacant/new flats.

3.2 Prague

Prague, with a population of over one million, is divided into 22 administrative districts and 57 independent municipalities (several municipalities may form one administrative district). Each municipality has its own elected council, board and mayor. State Act 172/1991 transferred the original state housing stock free-of-charge to the ownership of the City of Prague. But, based on the Act on the Capital City of Prague and Status of the Capital City of Prague, the overwhelming majority of the housing stock is managed independently by municipalities,⁶ which decide on privatization, rent setting, allocation criteria, and so on. Thus, there is a wide range of

approaches. Some municipalities (e.g. Prague-Řepy) decided not to privatize even one dwelling, others (Prague 1) decided to privatize the majority of the public housing stock. Though housing policy issues/responsibilities are transferred to municipalities, the City is primarily responsible for solving general social problems concerning, for instance, the elderly, handicapped, Roma or homelessness. Municipalities, therefore, do not apply for state subsidies provided under the above mentioned national programs. The same applies to the provision of temporary accommodations for homeless people (sheltered housing, municipal subsidies to foundations, charity and non-for-profit organizations).

In recent years, several hundred municipal flats have been constructed annually (782 flats in 1995; in 640 in 1996; 258 in 1997; and 418 in 1998). These units make up approximately 50 percent of the annual public housing construction in 1989. The City of Prague builds the majority of the new municipal rental flats; municipalities have engaged in only small-scale projects.

Rent in new municipal housing is equal to the “cost rent” (maximum of three times the regulated rent); it is not always clear what costs should be included in the calculation of cost rent. Of the 194,501 municipal flats transferred from the state to the City of Prague in 1991, over 85,000 had been privatized by late September 2002. Another 22,443 flats were approved for sale by the councils of the municipalities. This means that almost 44 percent of former municipal flats were already privatized (55 percent, if counting those flats assigned for sale). Private rental housing is gradually becoming the main segment of rental housing in Prague. If all assigned dwellings are sold, the share of municipal rental housing of the total housing stock should decrease to 17.5 percent.

The former limit set by the Principles for Sale of Apartment Houses in the Ownership of City of Prague in 1996 was lifted in July 1999; this limit said that Prague should retain 20 percent of the total housing stock in its ownership. Due to pressure from the municipalities, amended Principles were adopted and the power of municipalities in this area increased. The only necessary condition for approval of a municipality’s privatization strategy by the City of Prague is to set the housing policy strategy in accordance with the Strategy of the City of Prague (this plan, however,

Table 5
General Characteristics of Prague

Area [km ²]		496
Number of municipalities		57
Population	2001	1,169,000
Population density per km ²	2000	2,387
Average monthly wage salary [CZK]	2000	18,865
Unemployment rate [%]	2000	3.42
Number of houses	2001	88,234
Number of apartments	2001	543,306
Dwelling area per unit [m ²]	2001	42.9
Dwelling area per person [m ²]	2001	18.4
Number of rooms per dwelling	2001	2.36
Permanently occupied dwellings	2001	496,940
Tenure [%]	2001	
• homeownership		22.2
• cooperative		13.0
• cooperative of tenants		12.2
• rental		47.2
• other		4.5
Area of completed housing [m ² per dwelling]	2000	60.4
Completed housing	1995	1,868
	1996	1,934
	1997	1,833
	1998	3,636
	1999	3,455
	2000	3,593

Source: Czech Statistical Office.

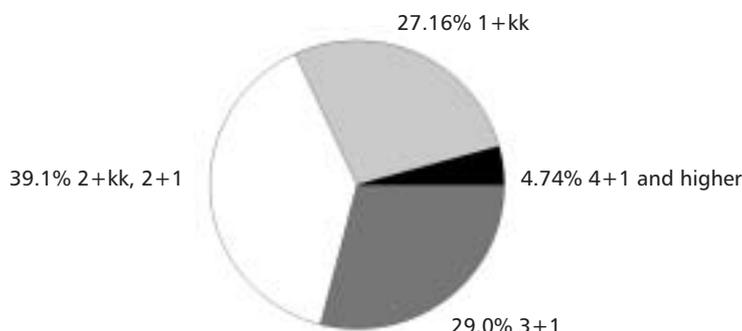
says little about privatization, allocation of municipal flats, new housing construction and is primarily only recommendations).

Dwellings in Prague have a smaller floor area (and lower number of rooms) than is typical in the Czech Republic. Due to the higher number of dwellings per 1,000 inhabitants, however, the average floor area per citizen is the same as in the country overall. The housing deficit was estimated to be 10,000 dwellings (acute need). High demand is created by incoming

foreigners who want to stay in Prague for extended periods (the number of foreigners living longer than one year in Prague is estimated at 80,000 people).

Concerning the allocation of vacancies in the current municipal rental stock, the City does not apply any social criteria, because that is the responsibility of each municipality. It does allocate a limited number of flats for needy professionals (police, deputies, state and municipal employees, jurists, etc.); in other words, “public interest” housing. The allocation criteria for

Figure 2
Prague Municipal Housing Stock Structure, 1999



Source: Housing Department, Municipality of Prague.

dwellings managed by municipalities are set (if they are set at all) by particular municipalities (the waiting list is often provided and special housing committee decides about the allocation). In December 2000, the City passed the City Frame Recommendations for Municipal Housing Management. According to the Frame Recommendations, the vacant dwellings should be allocated more carefully and effectively, taking into account the rent (and other housing expenditures) in the flat and the income of the applicant household. The future rise in housing expenditures should be also estimated to allocate flats with higher potential rents (in better location and of higher quality) to those with higher incomes, and vice versa. The City Frame Recommendations state: “Total housing expenditures in allocated dwellings should not exceed 33 percent of total household income, even in the five years outlook.”

Municipalities should gather important information that has not been previously collected, such as the applicant’s ownership of other real estate, average income, and household income disaggregated by members of household. In most cases, information on income is not collected due to the lack of legislative regulation concerning social housing. A new rental contract in allocated flats should be, according to the Frame Recommendations, for a definite period, not for an unlimited period of time as has been the case up to now. In this light, the strong tenant protections established by the Civil Code, unchanged since

the time of state socialism, can be reduced and the eviction of problem tenants made easier. Rental contracts for a definite period is especially needed in case of so-called “starting flats” for young people, where a maximum ten years contract is recommended.

In the case of rent arrears, the municipality should act immediately to solve the problem by the agreement and repayment calendar, to transfer the housing allowances payments directly to the hands of municipality (made possible by §59 of the Act 117/1995 on state social support), or by assistance in moving households to cheaper/smaller municipal apartments. It is recommended to prepare (construct) temporary shelter housing for principal non-payers and socially problematic citizens at the edge of the city and settle the debt by new tenants. More than 20 percent of households living in municipal housing in Prague have some rent arrears (Ústav územního rozvoje 2001); the main reason is, in many cases, the overconsumption of housing (living in very large dwellings) or preference to spend income (social support transfers) on other consumption. A real inability to pay for appropriate (reflecting the size of household) housing is, due to rent regulation, relatively not very common. However, moving to smaller dwellings is not a very simple task.

The City of Prague is responsible for constructing houses that provide social care. From 1995 through 2001, it built 1,722 new dwelling units in houses with social care, serving mostly the elderly and handi-

capped. The allocation of units is decided by the local social committee, in which municipalities are represented. The estimated number of applicants is more than double the city's capacity. Dwellings in houses with social care should be allocated prior to those applicants who would vacate their municipal dwelling when moving to the house. If the right of occupancy (together with regulated rent and tenant protection rights) is to be transferred to relatives when moving to the house with social care (a common case allowed by the current Civil Code), the applicant should be in a worse position.

The City is also responsible for homelessness. Rough estimates suggest that the number of homeless increased during the last decade. According to an interview made at the local Social Department, the typical homeless person is an unemployed man between 28 and 42 years of age, with an elementary education, who is divorced or was evicted for failing to pay the rent. Due to strong tenant protections, homelessness is not as acute a problem in Prague as it is in many capital cities in Europe, the USA and elsewhere.

The City of Prague funds an advice bureau for the homeless, lodging house and shelter hostel (opened during the winter). The shelter hostel offers the homeless a place to spend a night for five Czech krona and provides basic food free of charge. There is a minimum of four and a maximum of ten beds in each room. People must leave the hostel in the morning. The lodging house, "The House for People without Shelter," is open year-round. Homeless can stay for only a limited period of time (from fourteen days to four months), and must pay CZK 40 per night for a standard double room. In both the shelter hostel and lodging house, social workers try to help those in need, offering social support administration, employment application, and so on; they also try to force people to solve housing problems on their own (for example, by limiting time spent in the lodging house).

During the last five years, administrators of the lodging house succeeded in accommodating four people in municipal rental housing and about ten in pensioner homes. Though this seems to be minimal success, it is important to consider the current situation in (and allocation of) municipal housing. In many cases, municipalities do not appear to care to solve this problem and prevent from cooperation

with social curators. Administrators define success to be when a person leaves the municipal lodging house to a low standard private lodging house, which is not supported from public budgets. There is a number of private low-cost lodging houses in Prague, but the standard of living is lower (and price for housing service higher) than in supported housing.

Other than public institutions, there are several private non-for-profit enterprises providing the shelter for homeless people: Naděje (Hope); the Salvation Army; and religious charities. These societies can apply for grants allocated both by municipalities and the City of Prague. Their work is thus co-financed from public and private sources. The Salvation Army in Prague provides asylum accommodation (free of charge, but only for three days) and permanent lodging house (around 500 to 600 beds) where homeless can stay longer but they must pay CZK 3,000 per month.

The municipalities own and manage several houses for single mothers, but there is no special house for single women. Finally, the City of Prague owns and manages the House of Open Possibilities for adolescents coming from children houses and the Halfway House for former inmates leaving prison.

The goal of the housing policy strategy of the City of Prague, approved in 1999, was to introduce a unified policy. However, mainly due to low support from municipalities, this has not happened up to now. Moreover, most goals stated in the strategy have not been fulfilled and remain only on paper. For example:

- A part of housing construction (ca. 35 percent) should be realized by not-for-profit housing associations in the form of cheap housing with affordable rents. Currently, there are no not-for-profit associations working in the field, and new municipal housing is usually rented out for higher than regulated rents;
- Municipal housing construction should form about 20 percent of the total in Prague, and it should not drop below 800 municipal dwellings annually. Currently, the scale of municipal housing construction is lower;
- Construct "starting flats" for young families with limited time rental contracts. Currently, with the exception of some superstructures on prefab

houses, starting flats are provided by some municipalities in vacant dwellings;

- Approve the unified city housing policy strategy concerning housing allocation and housing privatization. Currently, rules for housing allocation and privatization remain in the form of recommendations. Municipalities are free to apply their own policies and, moreover, the privatization limit has been lifted;
- Income from rents should be spent only in the field of housing, such as new housing construction, refurbishment, or construction of houses of special types. Currently, municipalities may use the income from rents for different purposes;
- Use rent-pooling in a way allowed by national legislation (Act 176/1993) to increase regulated rents in better locations, and to proportionally decrease rents in unattractive locations. Currently, the “positional rent” has not yet been introduced, though it is allowed by central legislation;
- In cooperation with municipalities, create a register of all municipal housing and, based on this register, select apartments that will be used as “supported” housing. Currently, there is still no register and the cooperation with some municipalities is weak; and
- Increase the control of municipal housing exploitation from the black market. Currently, the black market remains at a same level as in 1999.

The basic conditions to realize such goals have not yet been created by central housing policy, including legislation on social housing, rent deregulation, new models of housing allowance, non-for-profit housing associations, higher fiscal decentralization and higher targeted subsidies for housing of special types. The City of Prague has not succeeded to convince municipalities that a higher level of unity or centralization would improve the system and make it more transparent. Both factors (low willingness of municipalities to cooperate with the City, and the slow tempo of central legislation improvement) have forced the City to partially resign from further shaping local housing conditions. The situation in the another large Czech town, Brno, may demonstrate how a rather different approach can work quite well.

3.3 Brno

Brno consists of 29 municipalities. Since 1994, 99.4 percent of municipal housing stock (former state housing transferred to municipal ownership in 1991) has been consigned to 15 municipalities (another six municipalities do not dispose any housing). Currently, the City of Brno manages only 0.6 percent of municipal housing. However, it applies a much more centralized housing policy than found in Prague. Only the City can determine which houses will be privatized, and at what price. Furthermore, almost all the revenue from privatization goes to the municipal budget; only the City decides about how the money will be spent. It also determines the main conditions for renting of vacant municipal housing in a binding decree (not just by recommendations), which includes a rent ceiling.

The structure of municipal housing in Brno is quite similar to that of Prague (Figure 3). The number of applicants for municipal housing largely exceeds the number of vacant flats. In 2001, only 279 municipal dwellings were vacant, while 5,585 applicants were on the housing waiting lists of Brno’s municipalities.

In 1996, the City of Brno approved Decree 3/1996 (amended in 1998 and 2001) on Rules for Sales of Houses, Dwellings and Business Premises, which establishes the main conditions for privatization (e.g. price calculation, discounts, and repayment period). Houses with more than five dwellings can be sold only to a legal entity founded by tenants. Houses with fewer than five dwellings can be sold directly to tenants (privatization by flats). The price is determined by an expert appraisal (in accordance with a government decree). The price of prefabricated houses is decreased by 50 percent. If there is immediate payment, or a bank guarantee, a 34 percent discount is offered off the purchase price. If the price is paid within one year, there is a 29 percent discount. In February 2001, the Council of the City of Brno approved the list of houses recommended (919) and “non-recommended” (390) for privatization. The status of another 835 of houses will be decided later. At the end of 2000, only 192 houses had been privatized.

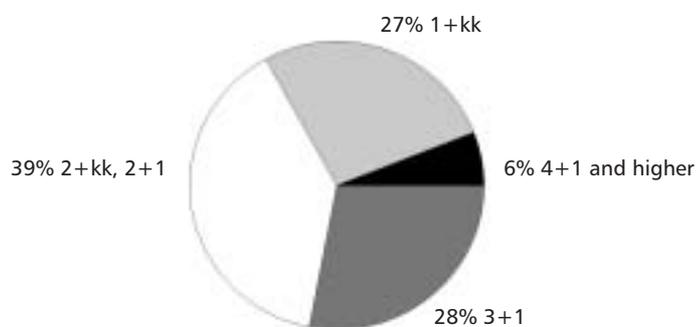
According to the Decree, all income from privatization, together with penalties for late payments and rent from land, is to be deposited in the Housing Construction Fund. These funds are then:

Table 6
General Characteristics of Brno

Area [km ²]		230
Number of municipalities		29
Population	2001	376,269
Population density per km ²	2001	1,636
Average monthly wage salary [CZK]	2000	13,755
Unemployment rate [%]	2001	8.6
Number of houses	2001	37,068
Number of apartments	2001	162,176
Dwelling area per unit [m ²]	2001	43.9
Dwelling area per person [m ²]	2001	17.9
Number of rooms per dwelling	2001	2.5
Permanently occupied dwellings	2001	151,724
Tenure [%]		
• homeownership	2001	26.6
• cooperative	2001	24.5
• cooperative of tenants	2001	0.6
• rental	2001	44.4
• other	2001	3.6
Completed housing	1996	430
	1997	465
	1998	882
	1999	1,451
	2000	1,007
	2001	1,000

Source: Czech Statistical Office.

Figure 3
Brno Municipal Housing Stock Structure, 1999



Source: Housing Department, City of Brno

- used to cover City expenditures arising from the privatization process;
- used to support new dwelling owners with grants of up to 30 percent of the original privatization price for reconstruction of facade, infrastructure, roof, and related improvements;
- transferred to the budgets of municipalities, where privatized houses are located (10 percent of total privatization income); and
- used to supplement other grants and preferential loans such as:
 - grants for technical infrastructure and land redemption for new municipal housing construction;
 - grants for technical infrastructure for new private housing construction up to a maximum of 60,000 CZK;
 - grants for new municipal housing construction up to a maximum of 200,000 CZK;
 - interest-free loans for new municipal housing construction up to a maximum of 40 percent of total construction costs;
 - contributions to maintenance, reconstruction and modernization of municipal housing up to a maximum of 40 percent of total costs and CZK 100,000 per dwelling in panel houses and CZK 140,000 per dwelling in brick houses; and
 - interest-free loans for maintenance, reconstruction and modernization of municipal housing up to a maximum of 40 percent of total costs.

Municipalities submit project applications for listed grants and loans, and the Council of City of Brno decides which projects receive funding. Most grants and loans are made for new municipal housing construction. Through the end of 2001, a total of CZK 364 million was spent on new municipal housing construction. Until 1998, the City of Brno preferred to construct new municipal dwellings exclusively from public sources (combination of state and municipal grants). Since then, however, the cooperative housing model has been preferred. In both cases the maximum rent is set at a level of three times the regulated rent. In cooperative houses, this “rent” provides revenue for repayment of mortgage loans and new “tenants” must provide relatively large down

payment when they take possession. The primary clients for new “municipal” cooperative housing are young people (66 percent of applicant are in age between 20–35 years).

In 1997 the City of Brno prepared the General State of Housing in Brno. This report summarized the housing conditions and identified main problems in the field of housing. The General is periodically updated, the last one published in June 2002. In December 2001, the Housing Policy Strategy of Brno was prepared and approved by the City Council, and in June 2002, the Council approved the complex Strategy for Brno including, among others, the housing policy strategy. The Strategy determines basic goals and priorities for the period of ten years; in 2005, the Strategy will be evaluated and may be redefined according to the actual situation. The following priorities were selected in the Strategy:

- 1) reconstruction and modernization of older housing;
- 2) regeneration of current prefab panel housing;
- 3) support for new housing construction designed for specific targeted groups of people; and
- 4) support for privatization of municipal housing.

The City of Brno, unlike the City of Prague, approved a binding Decree on Renting Dwellings (4/1996), setting forth the rules for renting vacant flats owned by the City and managed by municipalities. This reflects a more centralized model of local housing policy in Brno as well. The Decree describes the basic legal criteria for vacant municipal housing allocation. Municipalities have the freedom to prepare additional social criteria (pointing system) that must be approved by the City of Brno and in accordance with the Decree. Moreover, the Decree imposes a rent ceiling for newly allocated existing vacant dwellings at a level of two-times multiple of regulated rent.

The “social” criteria applied by different municipalities are very similar but they can hardly be labeled as social. “Points” are given mainly for having a permanent address in Brno (non-residents are disadvantaged), the number of years on the waiting list, the size of household and source of permanent income. Points for overcrowding are also included but the weight given is small. No income criteria are applied and, in fact, households with higher incomes may have a preferred

status compared to those with lower incomes because of criteria are related to source of permanent income. For example, in Brno-Zabovresky municipality, an applicant with permanent income from employment or business obtains twenty points, an applicant with income from a disability pension obtains ten points, an applicant with income from a pension obtains only five points, and an applicant living on social support (subsistence minimum) gets zero points. (An applicant living in overcrowded conditions may obtain a maximum of three points).

Some other municipalities (Brno-Middle, Brno-North) introduced, however, additional criteria, including the state of health of the applicant (approved by medical report) and/or the existence of serious reason for needing separate housing. Some municipalities decreased the weight given for criteria based upon the source of permanent income. Generally, with the exception of emergency situations (demolition, need for alternative housing), the criteria are not targeted exclusively to those in need.

As in Prague, the City is responsible for the housing of those with special social or specific housing needs. The main instruments/policies for accommodating such groups are:

- A three-step model is used for **single mothers with children**: lodging housing, temporary housing, and “normal” long-term municipal rental housing.⁷ A temporary rental contract for the period of one year is signed which may be prolonged to the period of two years. Rent is set at a level of regulated rent. Long-term rental housing is then sought with the assistance of the Social Department of the City of Brno. Social workers help mothers apply for vacant dwellings in particular municipalities and stay in contact with the housing department of these municipalities.⁸
- There are several houses for **abandoned children and youth**. The main problem appears when they reach adulthood and must leave the house. A three-step program is applied: housing in “SOS villages” (alternative family care), testing flat with supervision (learning reactions on everyday situations) and long-term municipal rental housing. There are two halfway houses for those coming from children houses or SOS villages. They can stay there for a period of one year and during that

time, social workers try to find them permanent housing. One house is managed directly by the City of Brno (Social Rehabilitation Department) and one by municipality Brno–Královo Pole.

- The **socially non-adapted** include those returning from prison, the homeless, alcoholics and addicts. According to estimates, there are about 200–300 homeless people in Brno (see definition of homelessness in the Chapter 1). A three-step model is used to solve the acute housing crisis: night-shelter, lodging house and temporary housing. There is one municipal night-shelter managed by the City Social Aid and Prevention Center with capacity of 31 beds only for men. The goal of service is to offer shelter together with intervention of social curators to minimize social and health risks. There are two lodging houses: one under management of the City Social Aid and Prevention Center (in municipal ownership) with a capacity of 18 beds (twelve for men and six for women) and another in the ownership of the Salvation Army with total capacity of 112 beds.⁹
- There are several municipal non-barrier flats (“protected housing”) for the **handicapped** (five municipal houses). Altogether, 34 houses with social care, comprising of 620 dwellings, were built by the City of Brno by late December 2001 (at which time 348 applicants were waiting). Another 549 beds in pensions for the **elderly** (1,448 applicants in December 31, 2001) and 1,229 beds in pensioner houses (2,185 applicants) are provided and managed by the City.
- According to the 2001 census, there are only 1,497 **Roma** in Brno (forming 0.4 percent of the population). Experts, however, estimate that the number is much higher, suggesting as many as 8,000–13,000. There are several citizen associations of Roma (IQ Roma Servis, Association of Roma people in Moravia) and one municipal cultural and educational center for Roma children and youth (Drom). Due to high levels of unemployment, many Roma require assistance in solving housing problems. Often, they reside in municipal rent-regulated housing. With the purpose of improving ethnic relations, the local government introduced a “community housing” project. The project was intended to involve Roma

in the reconstruction of two existing apartment houses (with 110 of flats), followed by the creation of a tenant-cooperative administration.¹⁰ The buildings have been in particularly poor physical condition and were occupied mainly by Roma households, many of which were in rent arrears.

Generally, the local housing policy in Brno is much better defined and realized than in Prague. There are clear rules for privatization and renting of municipal flats, unified and transparent city housing policy. The “social” criteria, however, used for allocation of municipal flats, are not well targeted to those in need. Cooperation between municipalities and organizations dealing with socially non-adapted people could be more efficient. There is no register of municipal dwellings, and the control of dwelling exploitation is still not sufficient. Income of households is not monitored when municipal flats are assigned, and there are no special programs for low-income households or young families (“starting flats”). The deficiencies, however, are often caused by the lack of appropriate national legislation on rent deregulation, social housing, non-for-profit housing associations of a new housing allowance model.

3.4 Ostrava

The City of Ostrava is composed of 23 municipalities (districts), and municipal housing has been assigned to 20 municipalities (six of them have more than 1,000 flats and three municipalities have none). The housing policy of the City of Ostrava has a rather decentralized character. Ostrava districts have the exclusive right to sell municipal housing and prepare their own privatization strategies (scale of privatization, price conditions, discounts). The City does not have a Council-approved housing policy or strategy. Although City representatives decided to create a committee with the responsibility to prepare a unified housing strategy before elections in 2002, at the time of writing, nothing had come of this initiative.

Ostrava and the surrounding region is affected by structural unemployment caused mainly by the decline of heavy industry, which dominated this part of the country. Young people (under 30 years) comprised about 36 percent of total unemployed in

2000. The high unemployment rate and large number of households living in relative poverty, combined with low foreign investment, have slowed the refurbishment process for housing and caused social segregation. At the end of the year 2000, the municipal housing totaled about 35,000 flats, or 27 percent of total housing stock. Approximately 16 percent of the housing stock is made up of private rental housing. The structure of the municipal housing stock is very close to that in Prague and Brno (Figure 4).

Privatization of public housing is the sole responsibility of the municipalities and takes different forms, including the selling of individual flats to condominiums (Act 72/1994) and whole buildings to tenant cooperatives. A total of 14,225 flats were privatized through 2001, representing 29 percent of the supply of municipal housing in 1991. The scale of privatization and the conditions applied differ among the municipalities.¹¹

There is no binding City decree on how vacant municipal flats should be rented. Only recently has a central register of housing applicants been established. Some of vacant flats are thus rented out for market rates (envelope method) and some for regulated rents, depending on a policy of the particular municipality. In Moravská Ostrava district, more than 6 percent of municipal flats are currently rented out for market rates, compared to 0.03 percent in the Poruba district. New rental contracts are mostly for a limited time, most often for one year. If the new tenant meets his/her financial obligations, the contract is usually extended.

The primary criteria used for allocating vacant flats are: permanent residence in the district, time spent on the waiting list, family status, occupation, health conditions and overcrowding. Though the criteria slightly differ among districts, they can hardly be called “social;” household income is never included. Moreover, those with permanent income are preferred due to relatively large rent arrears among current tenants. In January 2003, there were 11,026 applicants on the waiting lists of all Ostrava districts. Each year about 1,200 of dwellings become vacant (thus, 10 percent of applicants can be satisfied each year).

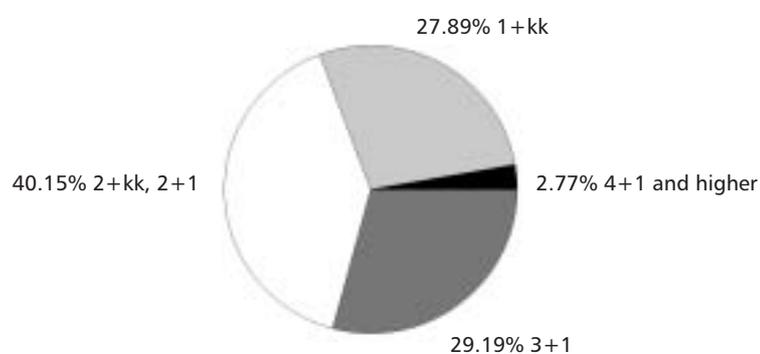
Rent arrears have become an acute problem in Ostrava municipal housing. The number of people in arrears reached more than 10,500 with accumulated debt equal to more than CZK 153 million. Rent arrears (including those carried out from the past)

Table 7
General Characteristics of Ostrava

Area [km ²]		214
Number of municipalities		23
Population	2001	316,744
Population density per km ²	2001	1,505
Average monthly wage salary [CZK]	2001	15,422
Unemployment rate [%]	2000	16.6
Number of houses	2001	23,850
Number of apartments	2001	134,041
Dwelling area per unit [m ²]	2001	41.4
Dwelling area per person [m ²]	2001	17.0
Number of rooms per dwelling	2001	2.42
Permanently occupied dwellings	2001	128,388
Tenure [%]	2001	
• homeownership	2001	16.9
• cooperative	2001	27.9
• cooperative of tenants	2001	7.8
• rental	2001	43.8
• other	2001	3.3
Completed housing	1995	497
	1996	338
	1997	292
	1998	407
	1999	261
	2000	231

Source: Czech Statistical Office.

Figure 4
Ostrava Municipal Housing Stock Structure, 2000



Source: Housing Department, City of Ostrava

comprised 28.15 percent of the gross rent roll in 2000. The process of eviction is very slow due to the long legal proceedings. Though some of districts have their own shelters for evicted persons, most of them are empty. For example, the Poruba District has 40 new units in shelter house, but only two are occupied. The monthly rent for shelter is about CZK 2,000.

The City of Ostrava uses state subsidies to build new housing. The scale of new municipal housing construction is very low. In 2000, 153 municipal dwellings were finished, 61 units in 2001, and 98 in 2002. With only one exception (housing construction in Ostrava-South), the construction is fully paid from public sources. Half of all new units are allocated by the district where new housing is built; other Ostrava districts cover the rest. Districts again exclusively prepare the allocation criteria. The rent is set as cost rent (maximum of three times the regulated rent), and the cooperative form with the financial participation of future “tenants” is not applied as in other cities.

As indicated earlier, the City did not have an approved housing policy strategy with clearly defined goals and target groups in the time of writing this paper (though one is being prepared). The Social Department of the City of Ostrava defined the following groups of people as having high social need: seniors, handicapped people, single mothers, the Roma minority and socially non-adapted persons (people coming from prison and the homeless):

- More than 60 percent of **seniors** (older than 80 years) need intensive social and health services. A large number of the elderly have low pensions to pay their housing expenditures. As in other cities there are pensioner houses, lodging houses for older people and houses with social care provided/managed by the City of Ostrava. There is total of 1,437 beds in pensioner houses, but the number of applicants still exceeds the current capacity more than 2.7 times.¹²
- There is a special municipal “protection” housing center for the **handicapped and mentally ill** in Ostrava-Muglinov, with thirteen dwellings and non-stop assistance service. Social workers help those in need by arranging formalities and employment opportunities in workshops, gardens, kitchens, and so on. Another protection housing center is provided by the not-for-profit organization Mens Sana, with a total capacity of ten dwellings. Asylum housing for ill or handicapped is provided also by the House of St. Veronica and Charity House of St. Elizabeth, with total capacity of 29 beds.
- In Ostrava there are six houses especially for **single mothers** with total capacity of 108 dwellings (in 1997, there was only one house with a capacity of ten dwellings). In 2000, 218 single mothers found shelter there. The Catholic Charity and FOIBE organization provides 27 beds in asylum housing for single mothers. Clients must pay roughly CZK 50 per night, which includes a meal. Another asylum housing is offered by the Salvation Army.
- According to the 2001 census, around 600 **Roma** live within the city limits of Ostrava. This figure, however, is not reliable: experts on the Roma estimate that there are from 20,000 to 40,000 Roma permanently or temporarily living in the city. The process of migration (displacement) of the Roma minority from the town center is apparent, resulting in ghettoization. The main factor influencing migration is rent arrears and the privatization of municipal houses to the ownership of a third person. In case of eviction, Roma most often find another host family and move into their flat; sometimes, they occupy flats temporarily left vacant by other Roma families. The City of Ostrava, with the help of state funds, a housing association from the Netherlands and the Catholic Charity, has initiated the special project, “Village of Cohabitation.” The goal is to construct of 35 family-type rental houses for both Roma and majority households in the Slezská Ostrava district. A condition for obtaining the housing is participation in the construction works. All 35 houses are finished, and fifteen families Roma, fifteen Czech and fifteen mixed families currently occupy the new dwellings; rent has been set at a level of cost rent.
- “**Non-adapted**” persons refers to former prison inmates and the homeless. The former often face unemployment: only 58 people from total of 615 former prisoners listed by the Ostrava Labor Office found employment in 2001. According

to the Ostrava Social Aid Center, about 600 former prisoners have acute housing problems, and very often become homeless. The municipal lodging house has, however, a capacity of only 17 beds.¹³ The estimate of homeless persons made in November 2002 by the same institution showed that there are actually nearly 150 people without any shelter and another 61 people in night shelters.

Housing policy from the point of view of the housing poor in Ostrava is rather poorly conceived. There are no starting flats for young people, no approved unified housing strategy, no central register of vacant municipal flats or binding decree on renting out the vacant flats. The cooperation between providers of asylum housing and municipal (district) authorities is also weak. The capacity of shelters for those in housing crisis is not sufficient.

4. HOUSING POLICY RECOMMENDATIONS

4.1 Central Government

4.1.1 Introduction

This study shows that rent regulation itself (and, in combination with non-effective housing allowance) belongs paradoxically hinders help for those labeled as housing poor. With respect to efficiency, effectiveness and the impact on social justice, “first generation” rent regulation should be abandoned. With the exception of limited municipal social housing, rents should be deregulated within the next few years, and a “second generation” rent control system should be introduced (as in the overwhelming majority of EU countries). A new, better-targeted housing allowance should be passed as well. Rent control in its current form does not serve the disadvantaged segment of the Czech population; rather, it deprives needy households of affordable, regulated rental housing. With respect to economic efficiency, rent control leads to an increase (sometimes, a manifold increase) in market rents in the market rental sector, thus again decreasing financial affordability for those lacking permanent housing.

The crucial question is thus: What is the equilibrium market rent in the Czech Republic? Current market rents, which are sharply distorted by rent controls, are clearly not equilibrium market rents. To assess the actual equilibrium market rent in the Czech Republic, we have used a relatively complex method: simulating an increasing supply of rent-controlled housing for various levels of rent prices until an equilibrium market rent is achieved.

4.1.2 Rent Deregulation in Prague, Brno and Ostrava

In order to ascertain the actual equilibrium market rent level, we developed a simulation syntax model with the SPSS application of a “shock” deregulation, and used an actual data set, the *Family Budget Survey 2000* (FBS 2000). The goal of this model was to determine, in selected Czech towns, the rent level at which the supply of rental apartments to be vacated would be sufficient to meet the demands of households living in the current market rental housing sector. Based on consultations with housing policymakers in Prague, we estimated the number of apartments leased at market rents in Prague. Then, using a special algorithm, we estimated the number of apartments leased at market rents in Brno and Ostrava.¹⁴

For each household surveyed in FBS 2000 and living in the rent controlled housing sector in the selected towns, we further calculated user costs that a household would incur if it acquired ownership of housing of corresponding size and in a corresponding location. In the case of selective increases of the current regulated rent, we assumed that if a household met certain age and income criteria, and if the user costs of ownership housing were lower than the new regulated rent, such a household would then leave the rental sector for the ownership housing sector. The deregulation process in the area would stop when the number of vacated apartments was equal to the total number of apartments in the current market rental housing sector (including the black market). Such a new equilibrium market price would naturally be much lower than present overpriced market rents.

We assumed that there were no “retained apartments”—rental apartments not currently used by the person stated in the lease agreement, but which are “retained” for offspring, relatives or acquaintances—

to whom the rights following from the lease agreement could be transferred in the future. On the contrary, we assumed that all rental apartments were used by someone who pays a regulated or market rent for using the apartment (for example, that empty municipal apartments are illegally subleased by their tenants for market rent to other people).

If we assume that the effective demand for rental housing is exclusively constituted only by households currently living in the market rental sector, then rent deregulation would stop much sooner and the new equilibrium market rent level would be lower than the level simulated in our model. It is almost certain, however, that if the level of the current market rent fell, other households who are currently living with relatives, parents, in temporary housing, and so forth, would show interest. Then, the efficient demand for market housing would increase. As such, the deregulation process would stop when the number of households leaving the current regulated rental housing sector came to equal the number of households living in the market rental housing sector.

Originally, we presupposed that households, behaving rationally, would compare the current rent they are paying with the user costs of an equal size apartment in a completely new apartment building. The principal component used to determine user costs is naturally the acquisition (or purchase) price of equal size ownership housing in a given location. In order to ascertain average acquisition costs per square meter of total area in newly constructed apartment buildings in the selected cities, we started with data from the Czech Statistical Office (CSO) presented in *Housing Constructions Completed in 2000*. The acquisition prices stated by CSO, however, do not include the costs of a land plot. Based on cooperation with the Association for Housing Market Development, we ascertained the average prices of land plots in each size category of municipalities and in each region; we divided the stated price of a land plot by the coefficient 3.8, which equals the average number of floors in newly constructed apartment buildings in the Czech Republic. The resulting modified price per land plot was added to the acquisition price of new apartments based on the data of the Czech Statistical Office.

In light of the fact that the presupposition that households would leave only for new ownership housing proved to have relatively far-reaching conse-

quences for determining the new equilibrium market rent (especially, for example, in Ostrava where direct acquisition costs of new construction are not that much lower than in Prague). Moreover, it is likely that this presupposition differs from “reality;” we divided households living in rent-controlled apartments in such a way that 50 percent of randomly selected households in the set of studied households in FBS 2000 would leave the rental sector only for new housing and the remaining 50 percent would leave the rental housing even for older housing. The size of newer or older ownership housing, however, always had to correspond to the size of the currently occupied rental apartment. The average prices of older housing per square meter of floor space in individual municipalities were obtained through the *KISEB* database operated by the Institute of Regional Information in Brno.

When calculating user costs, we assumed that all households would pay 70 percent of the purchase costs using mortgage credit and 30 percent using their own savings. We assumed that households would take advantage of the most profitable offer on the mortgage credit market (*Česká spořitelna*). Under this premise, one-half of the credit (at maximum CZK 1,000,000) is burdened with the market interest rate reduced by 3 percentage points (3.5 percent), and the other half by the regular market interest rate (6.9 percent). The credit maturity was set at 20 years. We also included the state-granted interest subsidy on mortgage credits (2 percentage points of the resulting weighted interest rate of *Česká spořitelna* based on a program valid in 2001) and a tax relief following from the possibility of deducting construction credit interest from the tax assessment basis. In addition to the average interest installment adjusted due to the tax relief, we also included opportunity costs and the depreciation rate. The former are paid using the household’s funds, covering 30 percent of the total purchase costs at 5 percent; the latter at 2 percent of the total purchase costs per year in the case of new housing and 5 percent of the purchase costs in the case of older housing. Furthermore, we deducted the expected capital profit following from the expected price appreciation of particular real estate in future. We differentiated the appreciation coefficient based on a comparison of time series of older housing price developments between 2000 and 2003 in the selected cities. In the

case of Prague and Brno, we assumed a real appreciation amounting to 40 percent of the original purchase costs over 20 years; for Ostrava, we assumed 20 percent of the original purchase costs over 20 years.

Based on the conditions concerning eligibility for mortgage credits, applicants who do not meet the criteria of client solvency of the given banking house are denied the possibility of receiving credit. Therefore, households that failed to meet the client solvency criteria of Česká spořitelna were denied the possibility of acquiring ownership housing. Based on our additional assumption, we included households with heads over 45 years of age. Such households left the regulated rental housing sector as a consequence of rent increase.

We then continued to increase the existing rent paid by the individual households surveyed in FBS 2000 that are living in the rental housing sector in the selected cities. We did this until the number of households living in the market rental housing sector in a given city equaled the number of households that left the rent controlled housing sector.

Table 8 provides a comparison of the average simulated equilibrium rent prices and the present bid market rent (KISEB database) for Prague, Brno and Ostrava. It is clear from the table that the proper value of the market rent in many regions is far below the current value.

Table 9 states the rent-to-income ratios for various groups of households after the termination of the deregulation process and a price “jump” from the current regulated rent to the equilibrium market rent level. As is clear from the table, a price jump in the

rent to the equilibrium level would result in a sharp increase in the rent-to-income ratios and a decrease in housing affordability for many households (especially for one-member households and households of retired people). Therefore, it is necessary, on the one hand, to distribute the deregulation process over a longer period of time (ten years) and, on the other, to prepare new and (this time) more efficient and more targeted housing policy tools that will ensure the affordability of rental housing for Czech households of all social groups. In EU and other developed countries, these tools in particular include social housing and the housing allowance.

It is necessary to repeat that lifting of the non-targeted first generation rent control itself would sharply increase affordability of housing for young people paying current biased market rents as well as provide substantial help for people currently unemployed whose mobility is limited by existing rent controls.

In the sub-chapters that follow, we focus on the basic housing policy tools that would ensure the affordability of rental housing for socially disadvantaged households (the housing poor) in the Czech Republic when first generation rent control is lifted. Although we recommend a gradual reform, for the purpose of examining the efficiency and effectiveness of selected targeted housing policy tools in the Czech environment, due to methodological reasons, we maintain the assumption that a shock increase of rents to the equilibrium market rent levels would occur. As we look at the tools to ensure greater housing affordability, we first examine “enlightened” state supply-side subsidies (creation of the social housing sector), after

Table 8
Comparison of Simulated and Market Rent Levels

Municipality	Average Monthly Rent According to FBS 2000 [CZK/m ²]	Average Monthly Rent After Deregulation [CZK/m ²]	Average Monthly Bid Rent According to IRI* [CZK/m ²]
Prague	30.24	50.15	128.0
Brno	21.80	32.92	84.0
Ostrava	22.49	24.53	32.0

* Average values obtained from data concerning the average bid rent in 335 towns of the Czech Republic (situation as of 15 November 2000) published by the Institute of Regional Information as part of the Comprehensive Information System of Economic Characteristics of Housing (KISEB).

Source: FBS 2000, Calculations by authors.

Table 9

Rent-to-Income Ratios Before and After Deregulation to the Simulated Equilibrium Market Rent Level [%]

	Average Actual Rent-to-Income Ratio Before Deregulation	Average Actual Rent-to-Income Ratio After Deregulation
Social group of the head of household		
Worker	9.76	14.47
Self-employed	8.99	14.99
Employee	10.10	16.71
Retired	14.80	24.81
Size of household		
1-member household	14.38	23.58
2-member household	10.54	17.73
3-member household	9.05	14.04
4-member household	8.11	13.76
5-and more member household	8.20	13.66
Type of household		
complete family without children	10.11	16.86
complete family with children	8.10	12.26
single parent family with children	12.14	20.80
one-member household–male	12.36	20.63
one-member household–female	14.94	24.30
Age of the head of household		
18–25 years of age	14.78	16.70
26–35 years of age	8.90	10.52
36–45 years of age	9.36	16.19
46–55 years of age	9.75	16.84
Over 56 years of age	13.31	22.64
Tenure		
municipal rental apartment	11.44	18.97
private rental apartment	10.18	16.75
Municipality		
Prague	11.57	20.45
Brno	10.18	15.74
Ostrava	10.01	11.03

Note: The first column states the rent-to-income ratio for all types households in the rental housing sector; the second, only the ratio for those households that would not leave for the ownership housing sector under the conditions defined by the simulation model.

Source: FBS 2000, Calculations by authors.

which we look into demand-side state subsidies (the housing allowance).

4.1.3 *Introduction of Municipal Social Housing*

We believe that in the Czech Republic, the current, relatively large sector of municipal rental housing presents an opportunity for the development of a social housing system. We therefore recommend the creation of conditions that will motivate municipalities to divide their rental stock into two parts: one to be leased at an equilibrium market rent, and the other to be leased as social housing. The division of apartments should occur in such a way that no social housing ghettos are created (i.e., divide apartments evenly within individual apartment buildings).

There are, in principle, two ways to achieve an affordable rent in the existing public apartments that will at the same time ensure that necessary costs are covered. The first model would not introduce a housing allowance at all; rather, the housing allowance would apply only to private rental housing. The rent in existing municipal apartments would be, in compliance with the income-related rent system, set according to household income. The state could compensate the differences between the costs and social rent through revenue subsidies to municipalities. In the second approach, only two rent levels would be defined: the cost rent in social apartments; in other municipal apartments, the rent price would be set at the equilibrium market level. The annual cost rent would be, in compliance with EU standards and taking into consideration the fact that the current municipal housing stock is not burdened by construction credit repayments, defined as 1 percent of the replacement value of the apartment. To ensure housing affordability, a housing allowance would be introduced. We believe that, with respect to increased transparency (with only two rent levels and no revenue subsidies), and a lower risk of creating various price gaps between the social and private rental housing, the second approach is currently more appropriate.

In light of the fact that in FBS 2000, rental apartments owned by municipalities are not segregated from private rental apartments, we made this differentiation using coefficients of logistics regression on data from the *Housing Attitudes 2001* survey (which

does maintain this differentiation). Then, we divided this “additionally generated” municipal rental stock into a social housing (for socially disadvantaged households) and a stock of apartments leased for the equilibrium market rent. An objective of this step is also to preserve the existing social mix in all neighborhoods. This means that municipalities would define a certain number of apartments per apartment building to be leased for the social rent, and a certain number of apartments leased for the equilibrium market rent. In this way, social segregation would be prevented: households with higher incomes would live in the same apartment buildings as socially disadvantaged households.

As investment costs for housing construction have been covered with direct subsidies from the state budget in the past (it is not necessary to repay a mortgage or other construction credits), we set the social rent at the level of 1 percent of the replacement value of an apartment per year (one-twelfth of this value per month). The apartment replacement value is understood to be the cost of constructing an apartment of equal size in the same location at the current prices for construction work and materials. This would introduce into the social housing system a way of determining the rent at the level of “the cost rent,” an approach that is most frequent in EU countries. We believe that an annual rent at the level of 1 percent of the apartment replacement value should cover all necessary costs related to repairs and maintenance. This assumption may (and almost definitely will) be a subject of further debates and more detailed calculations.

We assumed that lease agreements for social rental apartments would not only be limited in time (temporary contracts), but also contingent upon the actual social need of each household. If the reasons for granting a social rent no longer apply (e.g., due to an increase in income or a transfer of the lease to offspring with a higher income), the apartment would simply lose its status as a social apartment and would be leased for the equilibrium market rent. Likewise, if the living standard of a household living in a municipal housing stock fell to such an extent that it would meet the criteria for the introduction of a social rent, this household would then become entitled to the social cost rent.

We developed the following criteria to determine whether a given apartment should be leased at market or social rent. Social rent should be applied to:

- households with a head over 60 years of age with a total net income below a 2.2 multiple of the living minimum of the household; and
- households with a head under 60 years of age with a total net income below a k -multiple of the living minimum of a given household in which:
 - for households in Prague, $k = 2.0$;
 - for households in Brno, $k = 1.0$; and
 - for households in Ostrava, $k = 1.64$.

The objective of differentiating the coefficient k was, in particular, to reach a situation in which the social housing comprises approximately 30 percent of all municipal apartments in a given city. The proposed criteria privilege households with a head over 60, which would help elderly people for whom a potential move would be far more complicated. Table 10 states the percentage of households of the total number of households living in municipal rental housing that would be entitled to social housing.

In all the examined cities, the average social (cost) rent is lower than the corresponding equilibrium market rent. Thanks to the introduction of a social housing system in selected apartments of the municipal housing stock, the average rent-to-income ratio of individual groups of households also naturally decreased. As Table 10 shows, households of pensioners would be the main beneficiaries of municipal social housing.

With respect to possibility that new private rental housing construction will not reappear in the Czech Republic soon, it would be desirable to adopt new legislation related to new social rental housing construction and to create a long-term finance program. (A long-term program is necessary for economic reasons.) With respect to economic efficiency, creating independent non-profit housing associations seems to be particularly viable. Housing associations, as private legal entities, would be fully responsible for their financial activities and would be forced to ensure partial coverage of their costs from private resources (as in Poland, for example). Meanwhile, it would be possible for them to apply for preferential loans or grants from the state budget (or more precisely,

from the State Housing Development Fund) to cover their main activity—the construction of social rental apartments.

There should be an independent executive and supervisory institution that would monitor and evaluate the social and economic performance indicators of these housing associations, as is the case in the Netherlands and UK. Such supervision should ensure successful operations, and thus increase confidence among potential private creditors. Municipalities would exercise influence on the activities of housing associations in that their consent would be required for a construction project in cases when the housing association is requesting state subsidies, and also through direct active cooperation at the local level. Such cooperation would most often take the form of free-of-charge transfers of land for the construction of new rental apartments; as compensation, the association would have an obligation to lease a portion of the new social housing stock to candidates proposed by the municipality. Support for the filtration process (i.e., the movement of some households from municipal housing to the more expensive—but new—social housing offered by housing associations) would certainly help increase the supply of social municipal housing.

If public funds are used for construction, law at the level of the cost rent should regulate rent in housing association apartments. In such cases—because new and more expensive housing is involved, and because a significant portion of the costs will be paid through credit (either with standard or reduced interest rates)—the annual regulated rent could, in compliance with an analogous situation in Poland, be set at 4 percent of the replacement value of the apartment.

Eligibility for social housing owned by housing associations should also be restricted by an income ceiling in order to ensure the desired social efficacy of the program. In view of the fact that the cost rent in these apartments would be higher than the cost rent in municipal social housing, the income limits should be defined in such a way so as to enable middle-income households to apply for this housing. Due to significant differences between the current income level and the current price level of new construction, at least in the initial period, housing association apartments would thus serve households with an average income

Table 10
Social Housing Allocation According to Social Groups of Respondents

	Percent of Households Living in Municipal Rental Housing That Would Be Entitled to Social Housing
Social group of head of household	
Worker	14.1
Self-employed	12.5
Employee	6.7
Retired	73.3
Size of household	
1-member household	38.8
2-member household	32.3
3-member household	19.6
4-member household	14.3
5-and more member household	—
Type of household	
complete family without children	39.4
complete family with children	16.4
single parent family with children	26.1
One-member household–male	40.0
One-member household–female	39.8
Age of the head of household	
18–25 years of age	—
26–35 years of age	18.8
36–45 years of age	20.9
46–55 years of age	3.7
Over 56 years of age	54.0
Municipality	
Prague	28.0
Brno	35.1
Ostrava	33.3

Source: FBS 2000, simulation model.

rather than low-income households. Through active cooperation with the municipality and by supporting the filtration process, the new construction of rental apartments by housing associations could indirectly help increase the supply of existing municipal social apartments for the segment of the population with the lowest income.¹⁵

There are many forms of state participation in the program of new housing construction conducted by

housing associations. Lux (2001) offers a plethora of inspirational information on social housing in the EU, including several examples of social housing financing schemes in individual countries. Table 11 states the average acquisition cost of a new, average apartment (50 square meters) in each of the three examined cities (as of 2000) and the recommended average maximum annual cost rent in an amount of 4 percent of the average acquisition cost of the apartment.

Table 11
Acquisition Cost of New Housing and the Cost Rent in New Social Housing

Municipality	Average Acquisition Cost of a New Apartment Including Land Lot [CZK]	Four Percent of Average Acquisition Cost of a New Apartment [CZK]
Prague	1,213,060	48,522
Brno	824,454	32,978
Ostrava	986,213	39,448

Source: CSO, information provided by real estate agencies, Association of Housing Market Development. Calculations by authors.

The solution of funding for new housing construction will need to be the subject of a wide discussion that should also take into account the potential involvement of municipalities and an increase of the cost rent level over time (following from future increases in acquisition costs of new housing). It is certain, however, that if the maturity of preferential credits is sufficiently long, it is possible to eliminate the need for grants during new housing construction.

4.1.4 Introduction of a New Model for Housing Allowances

The housing allowance is a targeted subsidy paid from public budgets (state and municipal) to low-income and medium low-income households to cover part of necessary housing expenses—generally, the net rent. Based on housing policy reforms of the 1980s and 1990s, it has gradually become the preeminent housing policy tool for ensuring affordable housing in most EU countries and the United States. Although there are significant differences in formulas used to calculate the allowance and the scope of the entitled applicants, the housing allowance is modeled in such a way that the amount of the potential allowance reflects the degree of social need of individual applicants. It is always targeted at the low-income portion of the population and the amount depends on the housing expenses and the total income of the applicant. Usually, the size of the household plays an important role, as the allowance generally helps families with children more than single-member households.¹⁶

Since 1996, a housing allowance has been provided in the Czech Republic (see above). In view of the fact that the expenses are defined as tariffs countrywide (and thus do not reflect regional and local differences in housing prices), that the entitlement to

the allowance is restricted by an absolute income level (and not ratio of expenses-to-income in combination with the maximum expenses), and that, regardless of the existence of the market rental sector, the model only takes into account the household income, the given model—with a view to social effectiveness—is suitable only for environments with a flat-rate, regulated, undifferentiated rent. This allowance helps households that actually do not need any assistance (households with a low rent-to-income ratio) and, meanwhile, denies efficient help to households that clearly belong to the socially endangered group (retired people, households forced to live in non-regulated market rental housing). If, in the future, the state decides to transfer to rent control of the “second generation,” then the existing allowance would be of very little use.

Previously, we estimated the consequences of a “shock” transfer to the system of rent control of “second generation” (rent deregulation) and application of municipal social housing. Even if the rent in social apartments were set at the level of the cost rent, the problem of rental housing affordability would not disappear. It is necessary to develop a new housing allowance model that would correspond to the basic principles of continental models of housing allowances in EU countries and would reflect the specific conditions in the Czech Republic.

Sunega (2001) has studied the issue of the most appropriate model of a housing allowance in the Czech environment. For the purpose of our analysis, we used his slightly modified model, due to the more exact simulation of the equilibrium market rent level in this work.¹⁷

If the housing allowance were set at this level, slightly less than 86 percent of the total number of households living in rental housing would be entitled

Table 12
Percentage of Households Receiving a Housing Allowance

	Percentage of Households in Rental Housing That Would Be Entitled to a Housing Allowance
Social group of head of household	
Worker	85.9
Self-employed	76.7
Employee	77.8
Retired	98.9
Size of household	
1-member household	97.3
2-member household	86.8
3-member household	81.8
4-member household	57.9
5-and more member household	—
Type of household	
complete family without children	82.6
complete family with children	71.7
single parent family with children	95.8
one-member household—male	95.7
one-member household—female	96.6
Age of the head of household	
18–25 years of age	—
26–35 years of age	83.3
36–45 years of age	87.5
46–55 years of age	73.2
over 56 years of age	92.7
Municipality	
Prague	85.0
Brno	91.9
Ostrava	85.4

Source: FBS 2000. Calculations by authors.

to a housing allowance of an average amount of CZK 561 after deregulation to the equilibrium market level (approximately 25 percent of all Czech households).

However, due to the fact that new rent is currently reduced by the housing allowance, when introducing a new housing allowance model, several households

that would leave the market rental sector in the case of no intervention by the government would remain in rental apartments. Therefore, it was again necessary to increase the equilibrium market rents until the optimum number of rental apartments is vacated. Table 13 provides the development of rent-to-income ratios

for particular groups of households, depending on the housing policy tool applied (social housing, housing allowance). This takes into account the introduction of a household allowance which would result in an increase in the equilibrium market rent.

As Table 13 indicates, even after potential rent deregulation to the equilibrium level, the introduction of the recommended targeted housing policy tools will result in ensuring the sufficient financial affordability of housing for the most disadvantaged groups of the population (young people, retired people, single-member households).

More important than the positive financial results of rental housing reform (both for the public sector and for the housing market in general) is the fact that as a consequence of lifting the existing discrepancies, the black market with municipal rental housing will disappear (because the motivation to participate in the black market will disappear). Furthermore, the existing non-equilibrium market rent will be reduced and the demand for new construction of ownership housing will increase. Last but not least, municipal as well as private landlords ensuring the growth of investments into the recovery of the housing stock will see their incomes increase.

The housing shortage, a situation to a large extent artificially maintained (and perceived by large portions of the Czech population as a real social problem) could, in our opinion, fade in importance and become a problem only in selected locations or regions. On the other hand, in view of the large number of households claiming the housing allowance in the case of a “shock” increase in rent prices, it is important to distribute the deregulation process over an extended period of time and to take advantage of the gradual increase in household incomes. In our opinion, ten years is an adequate period to complete the deregulation process.

4.2 Local Government

4.2.1 Introduction

The changes in legislation and central housing policy (rent deregulation, municipal social housing and housing allowances) would substantially improve the situation of the housing poor and thus help to solve

the housing problem for young people, pensioners, low-income households (including single mothers) and the unemployed. The local housing policy is, however, crucial for accommodating others in need, such as the homeless and the Roma minority. As well, it is vital for the improvement of tenant participation, setting clear additional social criteria for “social” municipal housing allocation, and enhancing community and institutional care for the elderly.

We described the current situation in the selected three Czech cities in Chapter 1. Policies differ, with a more centralized policy applied by the City of Brno, and very decentralized policy in Prague and Ostrava. As the latter approach (decentralization) leads often to a large number of inefficiencies and high level of uncertainty among inhabitants (with a low possibility of a unified, citywide policy strategy), we recommend the “Brno Approach.” Prague is a relatively small capital city; as such, the decentralization of the housing policy (including privatization, social housing allocation, etc.) to more than 50 municipalities is quite unique and leads to many inefficiencies:

- Housing policies between close neighborhoods differ significantly. It is common that in one municipality, a household in need does not have the opportunity to obtain social municipal housing with regulated rent (as there is none) while a household living one street away does. The structure of municipalities naturally prevents the allocation of flats from other quarters (moving of low-income households from other neighborhoods); many households in need thus find themselves in a very peculiar situation.
- The more centralized model assures the increased transparency of strategies and efficiency of using income following from privatization. All municipalities may apply for funding for their own projects from a city fund, and the city council decides which projects are more acute. Otherwise, inequality between municipalities arises and the process of ghettoization can appear. Moreover, the “redistribution” of wealth among quarters is important for Czech cities with large panel housing estates. The regeneration of estates is a very expensive challenge and privatization of flats has shown to not be a cure, due to the appearance of poor homeowners (Hungary).

Table 13

Rent-to-Income Ratio Before and After Lifting Rent Control to the Equilibrium Market Rent Level,
After the Introduction of Municipal Social Housing and Housing Allowance Systems [%]

	Average Rent-to-Income Ratio Before Deregulation	Average Rent-to-Income Ratio After Deregulation	Average Rent-to-Income Ratio After State Intervention
Social group of head of household			
Worker	9.76	14.47	11.91
Self-employed	8.99	14.99	13.32
Employee	10.10	16.71	15.48
Retired	14.80	24.81	9.45
Size of household			
1-member	14.38	23.58	13.02
2-member	10.54	17.73	12.68
3-member	9.05	14.04	11.27
4-member	8.11	13.76	12.83
5+ member	8.20	13.66	13.53
Type of household			
family, no children	10.11	16.86	11.05
family with children	8.10	12.26	10.80
single parent, with children	12.14	20.80	13.97
single-member, male	12.36	20.63	12.59
single-member, female	14.94	24.30	13.12
Age of the head of household			
18–25 years	—	—	—
26–35 years	8.90	10.52	8.32
36–45 years	9.36	16.19	12.34
46–55 years	9.75	16.84	16.25
over 56 years	13.31	22.64	11.45
Municipality			
Prague	11.57	20.45	13.99
Brno	10.18	15.74	9.16
Ostrava	10.01	11.03	8.90

Note: Column 1 provides the rent-to-income ratio for all households of the rental housing sector. Column 2 lists only the ratio for those households that would not leave for the ownership housing sector under the conditions determined by the simulation model. Column 3 gives the ratio only for those households of the rental housing sector that would not leave the sector after deregulation. The model takes into account the increase of the rent due to an introduction of the housing allowance. For some households that would be interested in leaving after deregulation, the movement would not be rational because of the housing allowance; therefore, it was necessary to increase the equilibrium market rent level to a level when the originally required number of households in a given municipality leaves.

Source: FBS 2000. Calculations by authors.

- The more central model is guarantees the successful application of various grants distributed from the state budget or European (EU) funds. Many municipalities do not employ sufficiently qualified staff to prepare such application.
- A city may be a more reliable partner for commercial institutions, investors and banks, than (often) small and financially weak municipalities. For many projects on new housing construction or large-scale housing regeneration/refurbishment, loans and investments will be surely needed in the future.

The decentralization of policies is surely a trend that is apparent in many developed countries, often explained by societal changes. However, exaggerated decentralization may lead to the same mistakes as over-centralization. The central government should continue to hold several basic competencies in fields, such as defining social housing (together with rent regulation, non-for-profit housing association introduction and control, elementary criteria on social housing allocation) and introducing and managing housing allowances. Similarly, cities should not decentralize some of their competencies to quarters (municipalities), and should retain their right to prepare and introduce basic citywide housing policy strategies.

4.2.2 *Municipal Housing Management*

The unification of allocation criteria and higher targeting in rent-regulated housing allocation is needed vitally. As we have seen, many municipalities favor higher (middle) income households more than lower income households (unemployed). This is mainly due to the fear of future rent arrears and cohabitation problems with other tenants in a building. The exclusion of lower income households from allocation is not, it appears, a sustainable solution.

Firstly, cooperation between courts municipalities should aim to decrease the duration of the eviction process of principal non-payers. Municipalities should access tenants immediately when such a problem occurs, offer them temporary solutions and uphold the right to take hold on housing allowances allocated for such families. Caretakers, together with social workers, should stay in contact with problematic

households on a regular, even daily basis until the problem is fully solved. If a household refuses to cooperate, immediate action must follow: eviction to lower-standard shelter housing, or eviction with no right to shelter at all. Here, the speedy action of courts is needed. If there is an objective reason for breaching a contract (e.g., tenants are unable to afford rent), the municipality should assist the household to move to cheaper accommodation or, if recommended by social workers, forgive temporarily some payments. An individual approach is vital. If problems with rent arrears are solved by “standard” bureaucratic tools, without any cooperation with social workers, nothing will change. This has been made evident by social landlords in Western Europe.

Secondly, all new contracts on “social” municipal housing, both in new and vacant dwellings, should be concluded only on limited time period with regular income inspections (rules may be set by central law, as suggested in the previous chapter). Widespread criteria on permanent residence should be abolished, and all Czech citizens should obtain the right to social dwelling in any municipality, if they have a working contract in a location (this model is successfully used in Germany). This would especially aid young people in regions with high unemployment rates, as well as many “starting” young households. The exceptionally low mobility rate may increase.

The “Delft system” of allocation of vacant municipal dwellings should be tested and gradually replace the current system of waiting lists. The Delft system is based on higher consumer choice and leads to higher satisfaction with selected housing. Conceived in the Netherlands, it is currently used by many social landlords in Germany and the UK. All vacant flats are offered in special advertisement newspapers and each ad includes not only the basic information about the offered dwelling (rent, size, location, other expenses) but also the characteristics of potential applicants (family size, maximum household income, belonging to priority groups). Households in acute housing crises generally obtain priority vouchers and occupy a prioritized position when the committee convenes to decide on future tenants. Anyone fulfilling the criteria can ask for the allocation of a flat.

Thirdly, municipalities should improve the management of housing, by cooperating with those management companies applying the “European”

standard housing management. This consists of clear and simple organizational hierarchy and a high degree of tenant participation in management. There are only few administration companies that have changed their style of work towards higher economic efficiency and close cooperation with tenants in the Czech Republic, one of which is the MRA company employed by the City of Havířov. Caretakers should have daily contact with tenants, and be responsible for the maintenance of maximum 100 dwellings. Regular meetings of managers with tenants should be organized, during which important issues on maintenance, regeneration, social problems and others should be discussed. Those companies that have already applied a more “user-friendly” approach contend that the solution of problems is now more simple (tenants feel a “co-responsibility” for housing management); tenant satisfaction, measured by regular satisfaction surveys, has risen. Various tools for tenant participation have been created under the SUREURO project (Sustainable Refurbishment Europe) and are presented online.¹⁸

The municipalities should prepare cooperation strategies with future non-for-profit housing associations (if central legislation is passed) on new social housing construction. (Inspiration can be derived from the Polish system of TBS). The transfer of several existing municipal buildings into the ownership of those associations may be also considered, as it might improve management and lower costs. (Inspiration may be found in Large Scale Voluntary Transfer, applied in the United Kingdom). However, even when new legislation on housing associations is not passed, municipalities can strengthen their cooperation with existing non-for-profit organizations in fields like tenant participation and community care, especially for those in need (the elderly, handicapped). The current level of cooperation is far from ideal. We noted that many pensioners over-consume their housing. As housing allowances are always limited by standard floor area, calculated according to the size of household, some of pensioners will need to move to smaller dwellings. However, the elderly need assistance in finding smaller dwellings, in administering formalities, and in moving. Here, several opportunities for the involvement of non-for-profit associations appear.

4.2.3 *Homelessness*

Similarly, regarding the homeless, there is a low level of mutual cooperation, even among municipal departments (such as social and housing departments). The number of homeless who have obtained permanent municipal rental housing has been close to zero. The successful work of social workers in temporary housing options (lodging houses, night shelters, etc.) should be awarded by way of allocating vacant municipal flats among actively participating clients. The same applies for assisting single mothers and clients leaving halfway houses, children’s homes and prisons to find temporary accommodation. Though such a solution increases the power of social workers and curators over the future of their clients, the special training and regular inspection of their work may be protect from abuse. It is necessary to change current bureaucratic conditions to apply for a social support in the place of permanent residence. Many homeless are caught in a trap when they are asked to return to their previous residences to ask for social benefits, but lack the financial capacity to return. Each Czech citizen should obtain the right to social support in any relevant office in a country.

4.2.4 *Active Retirement*

Community care and participation in social life is especially needed for the elderly. The introduction of municipal social housing and new housing allowances would increase housing affordability, but further actions at the local level may improve the conditions of retirement. As in many developed countries, “many older people have developed lifestyles which are very different from those of their parents and show a strong link to contemporary youth culture” (Clapham 2003, 3). “Middle age is no longer the beginning of the end but the beginning of a thirty-year period of personal enjoyment and self-indulgence” (Scase 1999, cited in Clapham 2003, 3). Current policy options prefer institutional care (building of special houses with social care) before the improvement of direct community care for elderly in their homes. However, many older people would prefer to stay in their current dwellings, rather than move to pensioner houses or houses with social care.

Careful cost-benefit analysis and a discussion with potential partners (non-for-profit organizations, social workers) should precede decision making by municipal councils concerning the construction of new houses with social care. However, if a demand for such an option is high (often objective, as many older or handicapped people need non-stop care service), new houses should be opened. The criteria for allocating dwellings in houses with social care should include the request to vacate currently inhabited municipal housing, if a household lives in such a dwelling. The reverse mortgages extended by banks may also substantially improve the general welfare of this group of a society. The situation of “low income, high equity” appears often in many Central and Eastern European countries and inherited parent attitudes (social norms) may change gradually in the future.

4.2.5 *The Roma*

Housing for the Roma minority should also be dealt by combining non-discriminatory, responsive municipal actions, and individual approach strategies realized by field workers. Some experts contend that some natural ghettos (socially segregated housing) will always appear. However, ethnic ghettoization is of considerably more risk than neighborhoods characterized low income or poor households. If ethnic ghettoization occurs, experts recommend the following local policy steps (Frištenská 2002):

- find and define all aspects of ethnic or race discrimination, and strive to eliminate them;
- develop solutions that will assure the participation of Roma (e.g. in the reconstruction of their homes, working off their rent arrears);
- find and engage with “interpreters” between Roma and the municipality;
- help not-for-profit independent organizations to operate within the ghetto, and seek to ally with organizations (citizen associations) in which Roma people participate;
- encourage “openness,” such that the ghetto is not a “trap;”
- perform personal, detailed analyses and individual work with needy families (individual field social work, social and juridical consultancy services);

- inform and discuss relevant plans and concerns with citizens, in order to assess and acquire interest and support;
- bring social, health, consultancy services as well as services for children-care to the ghetto; and
- consistently apply all legislative possibilities to decrease the debt of ghetto residents (e.g. via social support payments).

Concerning the problem of rent arrears in case of the Roma, Niederle recommends the following (2000):

- initiate a meeting of all affected by arrears (electricity companies, gas companies, water management companies, waste management companies, etc.), to prepare the strategic plan. This plan should be discussed in city councils as well as with other citizens;
- apply the method of individual social work with particular clients and non-payers. Social workers should define and draw up an overview of the community. Through personal interviews and everyday contact with members, they should distinguish those who have some motivation to improve the situation from those who are not interested in cooperation;
- find such possibilities that would allow Roma to “work off” their debt (e.g. in the reconstruction of their house) and establish some kind of cooperative administration;
- utilize these services of not-for-profit organizations (particularly in regard to work with children and youth and labor re-qualification programs); and
- in the case of future arrears, take action, immediately, before the debt grows. In accordance with Law 100/1998, it is possible to set a special recipient of social support in case of rent arrears of the beneficiary. Such a recipient may be the municipality.

Special programs for young people are not generally needed. If the above mentioned reforms in the rental sector on the central level are realized, there should be enough market rental flats with low rents, and a limited number of social dwellings for those with low incomes. A new model for housing

allowances would help them much more efficiently than does the current system. Targeting in interest subsidies when taking a mortgage would assist them to become homeowners and to leave the rental sector once they can afford it.

4.3 Conclusions and Recommendations

The recommendations of future housing policy steps follow directly from Chapters 4 and 5. We provide a brief list of the main changes needed to improve the housing situation of the housing poor in major urban centers of the Czech Republic.

4.3.1 Central Level

- Gradually transfer to a system of “second generation” rent control in all rental housing, both private and municipal housing (from the current system of “first generation” rent control). According to the results of econometric modeling presented here, the real equal market rents after deregulation process would be much lower than current “market” rent prices.
 - Establish a basic legal framework for municipal social housing, including rent setting/regulation (cost rent) and basic allocation criteria (regional income ceilings, regular income inspection, time-limited rental contract, etc.).
 - Fundamentally change the housing allowance model to assist more efficiently those in dire need. (The recommended formula is described above.)
 - Introduce housing associations as non-for-profit organizations with the goal of new social housing construction. The legal framework should include rent setting/regulation, construction conditions (maximum regional price per square meter), allocation criteria (similar criteria as in the case of municipal rental housing, but introducing higher income ceilings to allow also middle-income households to apply), and financial conditions (grant/preferential loans from the state budget or the State Fund for Housing Development). Housing associations should preferably construct pure rental housing though some kind of support of cooperative housing may be discussed, too.
- Introduce reverse mortgages for older homeowners who would like to raise their income through this relatively popular form of housing finance, along with mortgage and universal banks.
 - Allow for adopting social support benefits countrywide, and not only in the place of former permanent residence.

4.3.2 Local Level

- Apply a more central housing policy in some cities (Prague, Ostrava). The best practice is found in Brno, with a relatively unified city housing policy strategy. Rushed or extreme decentralization naturally leads to deficiencies and low policy efficiency.
- Introduce higher targeting in rent-regulated or municipal social housing. Household income should be included in the allocation criteria and lower income households should be preferred. The contract should be concluded only on limited time period with regular income inspections. As well, conditions for permanent residency in the place of application should be abolished. The Delft system of housing allocation (advertising of vacant flats) could be tested to increase the consumer choice of future tenants.
- Improve management of municipal housing by employing those management companies using new, more “user-friendly” standards (caretakers in buildings, tenant participation, clear and simple responsibility division). Similar improvements can be made in cooperation with several existing non-for-profit organizations that could organize tenant participation and help the elderly to arrange formalities in case of relocation. The concept of active retirement and community care for the elderly (compensating for institutional care in houses with social care) should be carefully discussed and analyzed, taking into account the financial possibilities of municipalities. If demand for institutional care is still high, it is necessary to continue constructing new pensioner houses and houses with social care. The allocation of new dwellings should be based on vacating an occupied municipal flat if moving to a home with social care.

- React immediately when the problem with rent arrears appears, in cooperation with social field workers and housing caretakers. It is necessary to apply a more individualistic approach for particular households by employing qualified social workers/curators. This is mainly the case for Roma households, as the policy of ghettoization can never be sustainable in a long run. City councils should design such solutions that will insure the direct participation of the Roma (working off rent arrears, self-made reconstruction). The former bureaucratic “standard” methods will only increase tensions between majority and minority communities, and even within ghettos.
- Cooperation with non-for-profit organizations, as well as between different municipal departments (housing and social) should be substantially improved. The number of accommodated homeless people or single mothers in municipal rental housing is very low. The allocation of flats should correspond to the expressed commitment of those in a housing crisis to solve their own housing/employment problems. The level of participation should be evaluated by social workers/curators, and a specific simple system of control should be introduced to prevent from abuse.
- Prepare a unified housing policy strategy with deadlines and procedures for evaluating its fulfillment (the Prague strategy remains, in fact, only on paper). The strategy of cooperation with potential new partners (housing associations) in new social housing construction should also be discussed (provision of land plots, financing the infrastructure).

NOTES

¹ We put “market” in brackets, as the market rental sector is too small to generate optimal outcomes. Due to rent regulation, the real market rents (market equilibrium) would be much lower than they are now.

² The project “Regional Differences in Housing Prices,” conducted by teams from the Institute of Sociology of the Academy of Sciences in the Czech Republic between 1995 and 1998.

³ The non-existence of a transparently defined social sector of housing and the de facto non-social status of municipal flats together have serious consequences for poor households. The allocation of vacant municipal flats is very sporadic (partly because tenants try to “keep” their flats, even if they do not actually use them). It usually occurs only in completely unavoidable cases. Current market rents are quite high, mainly due to rent regulation and to the low incentive of higher income households to buy their housing on the open market. Thus, rent regulation paradoxically decreases the financial affordability of rental housing for those that in need (the housing poor). It is a common case that lower income young people live together in overcrowded flats after leaving parents or school dormitories to afford to pay current biased market rent.

⁴ CZK 30 = USD 1.

⁵ The amount of allowance is calculated according to the following:

$$\text{Allowance} = \text{household costs} - \text{household costs} * \text{net household income}$$

$$(\text{subsistence minimum} * 1.6)$$

Household costs are fixed (they do not reflect real housing or other household expenditures) on the level of the minimum amount to cover all necessary household expenditures (common expenditures, such as housing expenditures). This amount is set by law, and, with the minimum amount on personal costs (mainly on food), forms the subsistence minimum. The subsistence minimum (and household costs, too) varies according to the size of household and is valorized when the increase in consumption prices exceeds five percent from the last valorization. It is possible to rewrite the equation:

$$\text{Allowance} = NC [(MI - RI) / MI]$$

where *NC* are normative costs; *RI* is real income; *MI* is maximum income.

⁶ The term “municipality” will refer to the 57 independent city quarters, although the City of Prague is the municipality according to central legislation.

⁷ There are two lodging houses for single mothers in Brno, with a total capacity of 41 dwellings (another 81 applicants were waiting in late December 2001). The City of Brno (managed by the City Social Aid and Prevention Center) owns one; the other is owned by Catholic Charity (Brno district). Another municipal lodging house with fifteen dwelling units was opened in September 2002. The temporary housing is provided in one house owned by the City of Brno (the capacity serving for this purpose is 49 of dwellings and another 60 applicants were waiting in late December 2001).

- ⁸ The number of clients (around ten) that obtain municipal dwellings annually exemplifies cooperation in the municipality of Brno-Middle. Asylum housing for victims of domestic violence (women) with a capacity of beds is also provided by the non-for-profit association, Magdalenium.
- ⁹ The lodging house of the Salvation Army combines temporary housing with night shelter. The complex service is also provided by Asylum House, which is managed by the municipality's City Social Aid and Prevention Center (capacity of 81 to 89 beds for women and men, partners, families). The asylum house offers night-shelter, lodging and even temporary housing. Social workers try to motivate people to participate actively in solving their housing problems to minimize their dependence on social aid. Altogether, about 250 beds are provided (the Catholic Charity offers the only daily center). Several other organizations, mostly private non-for-profits offer daily services for alcoholics and addicts. In municipal night-shelters, clients can stay only three nights without permission of a social worker. If permission is issued, they can stay longer, but they may pay up to CZK 100 per night. Stay in municipal lodging house is not limited, but again is paid; in case of temporary housing, the clients must pay the regulated rent. If they refuse to pay, or if they refuse to cooperate with social workers, they must leave. Social workers help to arrange social support and housing allowances. About four families move into normal municipal rental housing from temporary or lodging houses annually. Cooperation with municipalities and with the City of Brno concerning the final solution of this problem is not, however, optimal.
- ¹⁰ Housing reconstruction was accompanied by several cultural-educational activities. The residence of the association Drom was moved a selected house, where it established an educational center for youth, a traditional craft workshop and an art agency. Drom also offers juridical consultancy, programs on prevention from criminal behavior and strengthening community ethos, and has introduced a new cooperative form of house administration. Similarly, the IQ Roma Servis association will combine the work of caretakers, education for children and youth, collectors of traditional arts, cleaners, lawyers and so on. Moreover, a large part of reconstruction works will be realized directly by Roma tenants. After reconstruction, tenants are to become cooperative shareholders. Each household must pay for the share in the new housing cooperative the amount of CZK 1,000 per square meter of floor area of his/her flat. This amount can be "worked off" during the reconstruction works; compensation has been set at a level of CZK 50 per hour. If a household is in rent arrears, it must pay or work off the debt; by way of reconstruction work, it can receive CZK 30 per hour. Otherwise, the household cannot become a member of the future cooperative. Reconstruction of Drom and IQ Roma Servis houses were financed by a combination of state subsidies, subsidies from Brno-Middle, and a loan from the Council of Europe. Though this is an exceptional example of efficient public-private partnership and good community project, there are several critics of the program too. The criticism flew from those activists who try to prevent from social segregation, as this project will not lead to the creation of social mix with majority population.
- ¹¹ The Slezská Ostrava district privatized only about 150 dwellings, while the Poruba district privatized 10,036 dwellings. In the Moravská Ostrava district, buildings were sold only when a tenant cooperative or condominium is made up of at least 50 percent sitting tenants. In Mariánské Hory district, 100 percent of sitting tenants are required, but the Ostrava-South and Poruba districts do not impose this condition at all, and buildings can be sold to a third person. The privatization price repayment period is ten years in the Poruba district, with a 25 percent discount for immediate payment, and five years in the Slezská Ostrava district. In the Mariánské Hory district, 50 percent of price must be paid immediately and the remainder within six months of purchase. Municipalities can freely decide how income from housing privatization will be used.
- ¹² The total capacity of lodging houses for older people has not changed since 1997 (328 beds). The number of applicants exceeds the capacity by more than four-times. On the other hand, there are seventeen houses with social care with total of 947 dwellings (in 2001 three houses with 94 dwellings were opened). In 2000, 214 applicants were waiting on the list; another 100 dwellings opened in 2001. Asylum housing for seniors is provided also by the Salvation Army, the Charity House of St. Agnes and the House of Peaceful Age of St. Venceslas with a total capacity of 105 beds.
- ¹³ There is only one municipal lodging house with seventeen beds for homeless, managed by the Ostrava Social Aid Center. This house offers accommodation for men only; the stay is not limited in time (it is, however, recommended that a client should not stay more than three years there). According to the employees of the lodging house, there is no direct link with municipal housing departments, and there is no cooperation with municipalities to find permanent housing for those people. In 2001m they found accommodation only for two clients in a halfway house. The monthly payment for lodging is CZK 800 and clients must actively cooperate with social curators on the solution of their housing problem (movement to commercial lodging house). The Catholic Charity provides another service for homeless people including night-shelter and lodging house with total capacity of 70 beds. The clients must pay for services: CZK 25 per night in night-shelter, and CZK 59 in the lodging house (they may also work off the price). The Salvation Army provides another 120 beds in its asylum house. The night-shelter for men (45 beds) costs CZK 10 per night, the monthly fee for lodging-house for men (60 beds) is equal to the actual level of living minimum part designed to cover housing expenditures. Another four beds in night-shelter and ten beds in the lodging house are reserved for women or single mothers. Several commercial lodging houses offer also the accommodation for quite low prices. For young people coming from children houses or victims of domestic violence the City of Ostrava provides temporary housing in the halfway house with total capacity of 43 dwellings (maximum of 92 persons). The house is managed by the Social Aid Center and clients pay regulated rent.
- ¹⁴ The first step in determining the size of the market rental sector in the Czech Republic was to assess the number of market rental apartments in Prague. The assessment procedure is shown in Table A1.

When making the assessment, we assumed that, starting in 1991, 0.7 percent of the total of Prague's municipal rental apartments have been vacated each year, of which on average 25 percent have been re-leased again by the municipality for a contractual (market) rent. According to available information, the municipal rental housing stock in Prague in 1991 amounted to a total of 194,500 apartments. As we knew the total number of privatized municipal apartments as of March 2001, we simply distributed the privatization over the individual years (thus, 8,300 privatized apartments were allocated for each year); the vacated and privatized apartments were then deducted from the total remaining number of municipal apartments. The number of vacated municipal apartments leased for market rent in other years was estimated using the same methodology. Thus, for example, in 1992 a total of 1,303 apartments (0.7 percent of the 194,500 apartments less 8,300 for privatized apartments) were vacated in the sector of municipal rental housing, of which 326 (25 percent) were leased for market rent. As of 2001, then, a total 2,516 municipal apartments would have been vacated for the market rental housing sector.

Table A1
Assessment of the Number of Market Rental Apartments in Prague

Year	Vacated Municipal	Market Municipal	Privatized	Market Private	Market Private Rental	Total	Total with Black Market
1991	0	0	0	0	0		
1992	1,303	326	8,300	75	1,080		
1993	1,236	309	8,300	75	1,070		
1994	1,169	292	8,300	75	1,061		
1995	1,103	276	8,300	75	1,051		
1996	1,037	259	8,300	75	1,042		
1997	972	243	8,300	75	1,032		
1998	907	227	8,300	75	1,023		
1999	843	211	8,300	75	1,014		
2000	779	195	8,300	75	1,005		
2001	715	179	8,300	75	996		
Total	—	2,516	—	747	10,373	13,636	27,272

We also assumed that a portion of the privatized apartments were leased on the free market by their new owners (to be exact, 0.9 percent of privatized apartments per year). We also constructed the same speed for the vacating of apartments (0.9 percent per year) for the restituted private rental housing stock, which we estimated at 120,000 in 1991 in Prague based on the data of the Czech Statistics Office. In view of the fact that private owners would hardly lease their apartments at regulated rent prices, we assumed that all the vacated apartments were leased at market rent prices. Private rental and privatized housing stock thus increased the number of market rental apartments by more than 11,000 apartments, to a total of 13,636 apartments.

Due to the existence of an extensive black market, which—in effect—also constitutes a market rental housing sector, we doubled the resulting number (to 27,272 apartments). We believe that doubling the number of apartments due to the existence of a black market is justified, and this is also confirmed by the findings of the survey *Attitudes to Housing 2001—Market* conducted in 2001 by the Socioeconomics of Housing Team of the Institute of Sociology among households living in the market rental housing sector (data collecting using the “snowballing” method was conducted by the Gallup Organization).

Then, we ascertained the number of apartments leased at market rents in Brno and Ostrava using the algorithm below.

Table A2
Assessment of the number of market rental apartments in Brno and Ostrava

Zone	Weight of market difference	Population	Apartments with Market Rent Weighted by Population	Apartments with Market Rent Weighted by Population and Market Rent Difference
Prague	1	1,169,106	27,272	27,272
Brno	0.677	376,172	8,775	5,940
Ostrava	0.511	316,744	7,389	3,779
Total	—	1,862,022	—	36,991

The weight of market difference was constructed as a ratio of the current average bid prices of market rent in Brno and Ostrava to the average market rent prices in Prague; this ratio was obtained from a set of data collected by the Institute of Regional Information in these towns during 2001. Data collection was done using bid rental and ownership housing prices recorded in the main advertising newspapers in the three cities. In Prague and Brno, the resulting set contained 1,000 cases and in Ostrava, 200 cases.

Based on the steps described above, we estimated the size of the market rental housing in Prague to be 27,272 apartments. By dividing this number into the population of Prague, we obtained the average number of market rental apartments per inhabitant in Prague; by multiplying this figure and the population of the other cities, we get the number of market rental apartments in Brno and Ostrava. It is, however, natural that the number of market rental apartments is not determined only by the population of individual locations but also by many other conditions (housing demand). These factors, influencing the size of the market rental housing sector, are naturally reflected especially in the current market rent prices in a given location (the higher the prices in an environment where the supply is proportionally approximately the same, the clearer it is that a larger portion of households have not found housing in the regulated rental housing sector and are seeking housing on the free market). We used the weight of market difference to make further modifications to our figures. By multiplying the data obtained so far by the weight of market difference, we obtained the final estimate of the number of market rental apartments in Brno and Ostrava.

¹⁵ If then, for example, a housing association in Prague received a zero-interest credit, with a 30-year maturity, from the State Housing Fund to construct a given type of apartment, it would have to pay approximately CZK 40,045 in annuity repayments annually for the construction of the given apartment. The collected annual rent amounting to CZK 48,522 (a monthly rent of CZK 4,043 is certainly an adequate rent for a new two-bedroom apartment; households would, moreover, be entitled to a housing allowance) would also cover other expenses related to repairs or housing stock management. If the credit with the same maturity were burdened with one percent interest rate, the annuity installments would amount to CZK 46,820 (at two percent interest rate it would be CZK 53,804), which would significantly decrease the ability of the association to meet its financial liabilities (due to the maximum amount of the regulated rent).

Similarly, a shorter maturity would have a great influence on the amount of the annual installments. In the case of a credit with a zero interest and 25-year maturity, the annual installments would logically amount to four percent of the acquisition value of the apartment, i.e., CZK 48,522. In such a case, the preferential credit granted by the Fund would have to be accompanied by a grant, and it is clear that when the economic efficiency of public expenditures and the opportunity costs are also considered, the grant is always “more expensive” and less advantageous for the state treasury than a credit.

¹⁶ The basic variables used to calculate the allowance are the income and housing expenses of the household. In some countries, the income before taxation is used, in others it is the income after taxation (net income). The definition of housing expenses of a household varies from country to country: while in the Netherlands and Germany only the net rent is included in the calculation, in Finland some other basic housing expenses are included (heating charges). In most cases, the income ceiling is not explicitly defined but it follows implicitly from the manner of comparing household expenses and income. The level of maximum costs, however, is very often explicitly defined, and any further housing expenses above this amount must be paid by the household from its own resources. Thus, no matter how great the housing expenses are, expenses above a certain maximum level defined by the given model are not included in the housing allowance calculation, even if such very high housing expenses are incurred by a socially weaker household.

With the exception of Italy and Spain, a housing allowance has been introduced in all EU countries (in Belgium, however, only as a special contribution under the social aid system). In some countries, the allowance is paid only to households in the rental housing sector (Great Britain, the Netherlands). In others, it is also paid to households entering the ownership sector and repaying mortgage credits (France); elsewhere the allowance is not restricted to any household and theoretically may also be granted to homeowners that have already repaid mortgage credits (Finland). The percentage of households receiving a housing allowance varies: in France, 27%; in the Netherlands, 14%; and in Germany, 8%. Because in most countries, the housing allowance is restricted to the rental housing sector, the percent of households in the rental housing sector collecting the allowance is important: Finland, 61%; France, 59%; Great Britain, 58%; the Netherlands, 26%; and in Germany, 12%.

¹⁷ The final model (normative rate of burden of equation, NRB) has following form (see Sunega 2001):

$$\text{NRB} = 4 + 0.0751445 * (\text{rank of the expenditure interval} - 1)$$

Expenditure intervals were in increments of CZK 50. The minimum NRB and the NRB curvature were determined in view of the average real rate of burden by basic housing expenditures after receiving the allowance. At the level of a minimum NRB amounting to seven percent (the original proposal following the study by Sunega 2001), the average real rate of burden by household basic housing expenditures (real housing expenditures-to-income ratio after allowance) would reach almost 30 percent; therefore, it has been reduced to four percent. By changing parameters, the average real rate of burden by basic housing expenditures after the allowance would be just 23 percent.

¹⁸ See CZ Sureuro www.sureuro.cz.

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TOO POOR TO MOVE, TOO POOR TO STAY

János B. Kocsis

The Housing Poor
in Budapest, Hungary:
Situation and Perspectives

A REPORT ON HOUSING IN THE CZECH REPUBLIC, HUNGARY AND SERBIA

The Housing Poor in Budapest, Hungary: Situation and Perspectives

János B. Kocsis

1. INTRODUCTION

The twelve years since the decline of state socialism in Hungary have been marked by a rapid increase in poverty and sharp increases in income differences between the upper and lower socioeconomic strata of society. In addition, income differences have become suddenly perceptible; poverty is now socially and politically accepted in a society previously inexperienced in these matters. Officials and opinion leaders in the national and municipal welfare systems have been unprepared to manage such a change. In short, the 1990s brought new approaches, methods, and ideas for dealing with the social problems that developed during the transition.

The housing problems of the lower socioeconomic strata are, in many ways, at the very center of change. Although the housing problem is acute in some rural and economically deprived areas, this paper will focus primarily on major urban centers, and particularly Budapest.

The subject of urban poverty includes a variety of subject areas that are interconnected, but also have distinctive characteristics and strong connections to other social phenomena. In general, the Roma generally occupy a low socioeconomic status, typified by their below average incomes. Moreover, the housing problems of this group are, in large part, the result of government and societal discrimination; as such, they will not be dealt with here.

Other groups that make up the housing poor, such as those with medical, mental and psychiatric problems, also have distinct characteristics that contribute to their housing problems. The situation of such groups will be discussed only briefly.

2. PROBLEM DESCRIPTION

Housing conditions have for long comprised key issues in national and local politics, and policies targeted to address these conditions have existed for many years. Broadly speaking, the housing situation and the processes for building and distributing housing have two primary political effects:

- 1) they are key components of the total national economy, which influence other areas of the economy, and state and private revenues; and
- 2) the populace's opinion of housing as one of the most important and basic human needs is a major factor in local and national politics (Hegedűs 1998, 49).

In addition, housing construction and maintenance require large sums of money that are not always available for all individuals and groups in society. In the last fifty years, the political system has attempted to deal with the housing situation primarily through:

- 1) communal, centralized government programs (prominent in the early socialist period, and gradually replaced by private and market forces); and
- 2) private and market forces, with the government relegated to a mainly a regulatory and supportive role.

Housing policies have proven to be relatively successful in Hungary in terms of the quantity of dwellings produced. It can be argued that no increase in the housing stock in absolute terms in Budapest is necessary in the short run, whereas approximately 100,000 new dwelling units will be needed in the next twenty years (Tosics 2000, 136). Meanwhile, the quality

of the units has often been low, and the units have sometimes been poorly allocated (Locsmáncsi 2000, 76). These problems persist. Recently, skyrocketing housing costs and a lack of resources has worsened the overall housing situation of the population in general, and of the poor in particular. These problems have been aggravated by the ineffective housing policies of the last decade (Hegedűs 1998, 49–50).

2.1 The Housing Situation

Three principal forms, which can be distinguished according to their primary actors, historically characterize the housing market in Central and Eastern European states: 1) the private sector sphere for private (individual) house construction, operated through non-monetary relationships and arrangements; 2) the private sector market sphere, requiring financial means and market demand; and 3) the state sphere, controlled by the central and municipal government, which receives feedback only through political mechanisms. All three spheres have existed to some extent over time, but the private sector sphere, which now prevails, has changed quickly since strict state control softened in the 1960s (Hegedűs and Tosics 1994/1, 125).

Under state socialism, state authorities controlled the entire process of housing construction in the public sphere. The construction of large-scale housing blocks predominated. In the early 1950s, through the nationalization of the housing stock of structures above a certain size (mainly in the densely-built, inner urban areas), the stock of state-owned and controlled housing expanded significantly.

Upon acquisition, or completion of construction, central or municipal authorities would designate occupants, thus keeping the housing in state ownership. Or, housing would be sold for a given amount through various methods. State-owned and controlled housing was predominantly located in the central, dense, urban areas.

In the private sphere, market-oriented developments were very rare until 1989. Single-family houses were commonly built in rural areas and occasionally in urban areas as well. These houses were constructed by families working, often manually, with relatives, friends and acquaintances (Hegedűs and Tosics 1994/1, 125–127).

The attitudes of the authorities towards the private and the state sectors differed from what was expressed through state support and subsidies. The state subsidized construction and maintenance in the state sphere, but restricted (and later neglected) the private sphere until the 1980s.

2.1.1 Socialist Housing Policies

According to a basic tenet of the socialist housing model, wages did not include the costs of housing, for either purchase or maintenance. Housing was the state's obligation, to be provided through central distribution. The central state agencies, nationalized companies and, to an even greater extent, local (but centrally-controlled) municipalities were the principal actors. The state subsidized construction only in the state sphere and legally restricted private construction through such methods as the granting of building permits, allowing purchase, assigning loans, and so on. The demand for housing was anticipated to be in urban centers, old and new, and housing policy thus focused on supply in these areas. The nationalization of privately-owned housing and former tenement houses, especially in the cores of cities, also served to increase the supply of publicly-owned and controlled housing. Housing in rural and more marginal areas was left for private initiatives and significant state resources were transferred from rural and other less significant areas to construction in the urban areas that was to be developed by central authorities.

Policies along the ideal socialist model described above were applied nationally before 1956, but their imperfections soon became apparent. A lack of resources in the economy pushed housing and other infrastructure investments into a secondary role behind rapid industrialization. On the demand side, rapid industrialization and the forced reconstruction of the economy created a huge demand for housing in new industrial centers and in Budapest, as thousands of former peasants and artisans relocated to find work. After 1960, elements of a housing "market" appeared with the development of trading in housing stock, both private and tenement. The state could theoretically have thwarted these processes, as it attempted to increase the supply of housing through mass construction, but gradually it became apparent that the cost of massive intervention would

have been very high, and regulations were relaxed. Although there was success in some areas in supplying sufficient housing for the immigrant masses, especially the new urban centers, the housing shortage in Budapest became permanent despite the huge number of new flats constructed in the state sphere. As a result, migration to the city was restricted until 1989.

Signs of shifts in the housing situation coincided with changes in the course of political events. After the repression of the 1956 revolution, housing became a top priority and the state decided to provide sufficient housing through mass construction. At the same time, it restricted private development in urban areas while warily allowing private family house construction in rural areas (Hegedűs and Tosics 1994/2, 140). After 1956, flats and family houses were virtually the only investments in which extra income, legal and semi-legal could be placed. This created an additional and different demand for housing in the non-subsidized, rural areas.

The introduction of the New Economic Mechanism in 1968 brought fresh resources, mainly from “second,” non-state economic activities, like secondary agricultural production, service, and small industrial or commercial businesses into different forms of state housing development, both central and municipal. This became the era of concrete housing estates, which flourished along the edges of cities; meanwhile,

central parts of urban areas, especially in Budapest, were neglected (Tosics 2000,133). Private construction of better quality houses increased in certain rural areas and small towns. As the economic crisis deepened in the 1980s, the housing output of the state sector significantly decreased and housing policy tended to direct subsidies towards the private sector. This was done in the form of subsidized loans, as the role of the market sphere became more important.

In 1990 in Budapest, 46.6 percent of the housing stock (396,000 units) was state-owned in the form of municipal and cooperative tenement flats, compared to 18.7 percent (721,000 units) in the rest of the country (Dániel 1996, 204). A secondary market for tenement flats evolved in Hungary from the late 1970s, in which the occupants “sold” their rental rights at approximately half the price of comparable flats on the private market (Tomay 2002, 72-73). The exchange of rental rights was officially allowed during the transaction, while purchase was not: the distribution of tenement homes was by rights run by the municipalities. The actual method varied, but in general, private lawyers collected, through newspaper advertisements, the names of interested “buyers” and “sellers” and attempted to match them. This led to a chain of exchanges until the desired outcome was attained.

The emergence of the “gray” market of tenement flats resulted from the bureaucratic, sluggish operation

Table 1

Housing Construction According to the Type of Owner (or Builder) Percentage in the Given Period

	State Built	Municipally Built			Cooperatively Built	Family Home
		Tenement	Cooperatively Sold ¹	Sold ²		
1961–65	9.8	14.4	9.4	1.8	0.0	64.7
1966–70	8.5	14.7	9.5	5.4	0.0	62.0
1971–75	4.5	17.1	12.8	12.5	1.6	51.5
1976–80	4.1	20.1	10.9	15.3	4.5	45.1
1981–85	2.7	13.1	6.2	24.6	4.5	49.1
1986–87	2.9	9.8	0.0	25.6	3.4	58.4

¹ Sold through a cooperative.

² Sold through OTP (National Savings Bank), the (virtually) sole popular bank under state socialism.

Source: Hegedűs and Tosics 1994, 132.

of the municipal housing authorities and from the lack of sufficient private housing especially in the urban centers. The actual allocation of a municipal tenement flat was run bureaucratically and ineffectively; the lack of housing was a usual phenomenon in more desired areas throughout the period. The housing authorities could not properly manage the sector and the laws were also inadequate. This “semi-privatization” of the tenement housing stock partially led to the compulsory privatization of the entire sector in the 1990s (see below) that was advantageous financially for the buyers.

The financing system for housing was part of the general subsidy system and was subordinated under the central government system for resource allocation during state socialism (Hegedűs and Tosics 1994/1, 131). The forms of housings were differentiated according to available resources and subsidies. In the state sector, resources were relatively plentiful. This was especially true for state-sponsored construction where rents were also heavily subsidized. It is estimated that in 1989, HUF 275 of direct and another HUF 402 of indirect¹ rent subsidy was added to each HUF 100 of rent, irrespective of a household’s financial status (Dániel 1996, 205).

In general, housing available to the private sector was scarce under state socialism, but grew from the early 1970s. Shortages (as with other commodities) led to a double market: prices of scarce state housing in urban centers were much lower than that of private housing as a consequence of the mass subsidies in the state sphere. The quality of new flats in the state sphere was better than in the old, neglected central neighborhoods and flats built privately in the outer areas. The cost of maintenance and other related expenses (e.g. interests) for state housing was also low for the tenants compared to the price of accommodation in the

private sector. These factors led to a mass demand for state housing in the 1970s.

The centralized allocation of housing was contradictory from the early stages. Theoretically, housing was allocated according to the needs of the families, with the intent of selecting a mixture of social and economic groups. In fact, influential individuals and groups were always able to get preferential treatment. Up to the mid-1970s, the state-owned flats were usually the best quality and most desired, especially the nationalized, centrally located flats. Members of the upper class almost always occupied these units. The state thus subsidized the “well off,” while the poor had to find accommodations in the expensive private housing market.

Later, from the early 1980s, as the quality of the privately built houses increased, the upper strata started to move to certain suburban areas—by buying dwellings in the private market, while retaining their municipal tenement housing in the desirable central areas. During these years, the less fortunate entered the subsidized sector by moving into the new housing estates, but they were more likely to be located in remote, less desirable, areas (Hegedűs and Tosics 1994/1,134–137). Despite all these changes, the number of poor in tenement flats in 1990 was lower than the number of those with average incomes. This was especially the case for retired households (Salamin 1992,169).

The socialist housing policy subsidized new construction and neglected the existing stock. The cost of utilities, which were heavily subsidized, was low for families and did not necessitate general state intervention to assist the poorer strata financially. At the same time, virtually no money was spent on the maintenance of tenement buildings, which led to their gradual abandonment by the upper classes.

Table 2
Ratio of Tenement Flats in Hungary, 1990

	Active		Inactive	
	Average Income	Under Living Wage	Average Income	Under Living Wage
Households in tenement flats [%]	17.6	19.0	28.0	19.1

Source: Salamin 1992, 167.

Table 3
Quality of the Tenement Houses in Budapest
in 1990 [%]

Bad	Average	Good
28	50	22

Source: Dániel 1996, 226.

2.1.2 Transition

The transition in housing finance and development began in the mid-1980s and continued well into the 1990s. During the 1980s, the interests on deposits in banks were lower than the rate of inflation that led to placing the savings in more durable goods. This effect was further strengthened by the fear of hyperinflation (Tóth and Árvai 2001, 1016). As a consequence of the capacity to enforce interests of major business actors, the interest rates on credits for companies, fixed centrally, were also low, sometimes negative in real terms that led to general scarcity of financial resources. Interests on bank credits for citizens were usually much higher and loans were hard to get, but certain forms of credit (mortgage loans, e.g.) were more advantageous; the populace thus attempted to draw profit from low rates and significantly increased such loans in quantity. The demand for loans constantly exceeded the potential of banks, which also led to the bureaucratic allocation of loans along non-economic interests (Kornai 1993, 567). Under state socialism, housing

was virtually the only area of allowed consumption that could be reached within a short period (the motorcar, as another major form of invest, was centrally redistributed and would-be buyers had to wait for many years). Investment in housing increased in both governmental and private sectors that were both producing housing for purchase to housing consumers. This demand led to an “over-consumption” of housing and a relatively good housing situation, in which the rate of housing construction and the condition of national housing were better than the economic state of the country at the time might suggest (Hegedűs and Várhegyi 1999, 101–102, Tosics 2000, 134). Meanwhile, composition and territorial allocation of the housing stock were less than desirable (Hörcher 1994, 63–64).

Other than the artificially low loan interest rates, various subsidies became the main channels of state intervention, in both the public and the private sectors during the 1980s. Subsidies for new construction took two main forms: 1) young families obtained a certain sum for their first home according to the number of children in the family; and 2) interests on loans for new construction were fixed at very low rates (1.5 – 3%), lower than other loans on the “virtual market” (Kornai 1993, 565–568). The difference between the loan rates and the “market” rate was paid by the state (Hegedűs and Várhegyi 1999, 117). In addition to low interest rates, loans were given for periods of up to 25 years (while the customary period for a loan was usually three years) and were difficult to get because of

Table 4
Number of dwellings, 1949-1996

Year	Total Number of Dwellings	Growth of the Number of Dwellings	
		Absolute Number	Percent
	Thousands		
1949	2,467	—	—
1960	2,758	291	11.8
1970	3,122	365	13.2
1980	3,542	420	13.5
1990	3,853	311	8.8
1996	3,992	138	3.6

Source: Gratzl and Szűcs 1997, 669.

the lack of resources at banks (see above). Moreover, the standard interest rates on non-subsidized loans for citizens were quite high, between 17 and 20 percent. Other forms of subsidized loans for citizens included loans for developing utilities (usually water structures and gas system) that were given for ten years. Loans for housing construction, theoretically established as a mortgage, were officially registered but could not be foreclosed because the laws at the time did not permit families to be evicted unless they had another home into which they could move. Litigation was also very slow. Despite all the subsidies, a large part of the cost of construction or purchase price of private housing originated from private resources.

During these years, state-financed and directed construction fell, the importance of the private sector grew, and market oriented private and semi-private initiatives appeared. Social inequities grew quickly, as it was mostly those who were better off and able to take advantage of subsidies and new financing possibilities.

The first efforts at inner city rehabilitation date back to the late 1970s, but the rehabilitation was slow and involved only small areas. The quality of the inner city housing stock, mostly tenement blocks, thus continued to worsen. The total cost of deferred maintenance in 1989 was estimated to be as much as HUF 200 billion (USD 3.3 billion) (Dániel 1996, 205).²

Very limited privatization of flats was allowed from 1969 until 1982, when the privatization of all flats in buildings with a maximum of twelve units was permitted. In 1988, most restrictions were lifted and mass privatization started, with very favorable prices for the occupants. The rate of privatization was highest among the better off: 20 percent of the 1980 tenement housing stock had been privatized by 1990 in the three richest districts in Budapest (I, II, XII) compared to 4 to 6 percent in the inner Pest districts (Tomay 2002, 69–70).

Inflation was first felt in the 1970s, but became serious in the mid-1980s, reaching 17 percent in 1989

Table 5
Housing Situation Between, 1970–1996

	Year			
	1970	1980	1990	1996
Inhabitants per hundred dwellings	318	292	263	250
Inhabitants per hundred rooms	193	146	110	104
Number of households, thousand	3,328	3,719	3,890	3,867
Households per hundred dwellings	108	105	101	97

Source: Hegedűs and Várhegyi 1999, 115.

Table 6
Housing Construction, 1988–1992

Year	Total Number of New Units	Average Floor Space [m ²]	Ratio of Family Homes [%]	Construction Cost per Unit	Number of Holiday Homes
1988	50,566	85	64.2	961,900	3,115
1989	51,487	88	67.6	1,182,400	2,308
1990	43,771	90	72.3	1,367,800	2,285
1991	33,164	90	63.3	1,627,800	1,752
1992	25,807	93	81.0	—	2,081

Source: Hegedűs and Tosics 1994/2, 144.

and reaching its peak of approximately 35 percent in the mid-1990s (Tomay 2002, 69). Prices in the housing sector grew along with inflation in the 1980s, but then lagged behind inflation a decade later, as other forms of investment brought more profit (Tomay 2002, 77). Other than fast growing maintenance expenditures, the high rate of inflation caused the subsidy of fixed rate loans for home construction and purchase to grow quickly, which became a huge burden on the state budget. Housing expenditures grew fourfold in the state budget between 1985 and 1990 (Szántó 1994, 70). The subsidy for fixed-rate loans for home construction and purchase were, therefore, gradually cancelled between 1989 and 1991, and interest rates increased to market levels. Families able to pay back immediately half the sum they owed did not have to return the rest. Three-quarters of the families paid back their loans, but the situation of the poorer families who could not repay their loans remained problematic for many years, both for the families and for the state-owned bank that was to be privatized.

The monthly installments of outstanding loans were subsidized until 1994, according to the number of the children in the family, after which the subsidies were eliminated (Tomay 2002, 74–75). In 1998, the central government made numerous attempts to reduce the number of families who did not pay monthly interests of their pre-1989 housing loans, and offered to pay, together with the local authorities, 70 percent of the backlog. However, the attempts failed as a consequence of the lack of the financial resources both of the local municipalities and the debtors, and the reluctance of the various parties to participate in the program. In 2000, the government estimated that approximately 20,000 families had outstanding housing loans while the affected bank, OTP, put the number at roughly 68,000. Finally, OTP started to auction off, to register encumbrances on the dwellings, or extend the run of the loans, thus reducing the monthly payment of those who were able and willing to pay.

In the early 1990s, the state withdrew quickly from the housing market, and due to economic problems and the higher profitability of other forms of investment, the amount of new construction fell dramatically (Gratzl and Szűcs 1997, 669).

An important feature of the change in the housing system was the transformation of the municipal system. While strictly controlled socialist municipalities

carried out the directions of central government, the municipalities elected after 1990 have enjoyed a high level of freedom and are restricted only by the law. Moreover, they are financially free to act, although the great majority of their revenue comes from the central budget. The middle level of government has virtually disappeared, as counties have few entitlements and little revenue.

The transformation of the Budapest municipal system into 22 (later 23) largely independent districts differed from that of the rest of the country. Independent district municipalities and the capital municipality legally have the same rights, although they carrying out specific tasks. Housing issues are managed exclusively by districts, which has led to a multitude of housing policies, with different regulations often being applied on either side of the same street.

2.1.3 Changes in Housing in the 1990s

The output of the economy fell sharply after 1989. Performance fell 3.5 percent in 1990, and then to 12 percent the following year. The first year of slow recovery was 1994, which sped up after 1997. Domestic consumption has grown since the second half of the 1990s. The level of employment fell 26 percent between 1990 and 1994. Net income fell 10 percent in the same period, and 15 percent between 1995 and 1996 (Tomay 2002, 69). Since then, dynamic growth has been observed, although the economic output and the standard of living reached the 1989 level only in 2000.

In general, the price of housing lagged behind inflation for much of the 1990s. The general decrease only slightly affected the up-market properties, if at all. In the upper sector of the real estate market, relatively high and constant demand stemmed from the newly expanding, local, upper classes (or “*nouveaux riches*”) and from foreign managers of international corporations moving into the Hungarian market or buying local firms. The shrunken building industry, now mostly private, “niched” this demand; this area was virtually the only one that developed in the 1990s.

The relative general decline resulted from the weak financial situation of the middle and lower socio-economic strata, such that the filtration effects from

Table 7
Growth of Property Prices in Budapest, 1996–2003

First Quarter of Year	Average Advertised Price of 1,000 HUF/m ²	Growth of Dwelling Prices Previous Year = 100	Growth of Consumer Prices Previous Year = 100	Net Growth of Real Estate Prices [%]
2003	233	109.4	105.3	4.1
2002	213	99.5	109.2	-9.7
2001	214	157.4	109.8	47.6
2000	136	140.2	110.0	30.2
1999	97	119.8	114.3	5.5
1998	81	112.5	118.3	-5.8
1997	72	110.7	123.6	-12.9
1996	65	—	128.2	—

Source: Hungarian National Bank (www.mnb.hu) and Térinfo Ingatlan-monitoring (quoted at www.ingatlan-online.com/origo030401.htm and www.origo.hu/uzletinegyed/ingatlan/20020419tovabb.html).

Table 8
Number of Privatized Municipal Tenement Dwellings [Thousand Units]

Year	Country Total	Budapest
1988	8.7	1.6
1989	18.7	5.6
1990	54.0	22.2
1991	82.1	47.0
1992	74.1	47.3
1993	58.4	40.1
1994	92.0	61.0
Total	388.0	224.8

Source: Dániel 1996, 205.

Table 9
Market Value of Privatized Dwellings in Budapest [Thousand HUF, Valorized]

Periods	Average of Total Price of Dwelling	Average Price per Square Meter
1980–89	6.724	97.1
1990–92	5.195	83.6
1993–95	4.670	82.3
1996–99	4.134	86.8
Unknown	5.475	93.2
Total	5.050	97.6

Source: Tomay 2002, 71.

the upper sector of the real estate market could not evolve. The situation changed in 1998 when the collapse of the East and Central European stock exchanges (as a consequence of economic problems in Russia) boosted investment in the real estate market. The housing market has been “rediscovered” by investors since then. This turn fruitfully paralleled the improvement of the financial situation of the middle classes. Housing prices grew rapidly until the end of 2000, and after a brief decline, they have since grown slowly, but steadily. Today, the increase in housing prices is moderate.

The country’s quick adaptation to a market economy brought a significant increase in previously subsidized prices of utilities and other housing related costs. The state could not afford to continue subsidizing energy, water, or gas—or, at least, it was not keen to do so. Furthermore, it wanted to create conditions for the privatization of utility companies. The ratio of housing related expenses therefore grew sharply within family budgets. Meanwhile, the rapid privatization of the major part of the tenement stock affected the housing market. (Table 8)

The rate of privatization sped up in 1991, as municipal authorities became the owners of the tenement blocks in their territories. At that time, municipalities still had the right to decide whether dwellings would be privatized or not; after 1993, they had to privatize almost every flat that a renter wanted to purchase according to a law approved by the Parliament that year. The new regulations met little opposition at the time because they benefited large parts of the populace, and they reduced the financial burden of maintain-

ing tenement houses for municipalities (Tomay 2002, 71). (Table 9)

The financial conditions of privatization were very advantageous for the occupants of state-owned housing at the time. Only a fraction of the actual value of the housing had to be paid, and those who could pay the entire sale price enjoyed further reductions (Tomay 2002, 70). As mentioned earlier, the better off were the first to take advantage of privatization: the market value of the municipal housing stock nationally fell to one-quarter after the privatization of half of the stock, and to one-sixth in Budapest (Dániel 1996, 204–205). As privatization advanced, the value of the dwellings being privatized dropped even more. The number of privatized dwellings was highest in the housing estates built in the 1970s and 1980s farther from the center, because municipalities could exclude blocks of housing in the central areas due to their special characteristics (see above). (Table 10)

There were many reasons for rapid privatization, as mentioned earlier. The national government wanted to protect the troubled national budget from the huge burden of subsidies going to the public housing sector. The national government also expected that new private owners would be willing to rehabilitate their dwellings. In addition, the advantageous purchase prices were popular among the voters.

Wanting to avoid unpopular steps, the municipalities privatized the tenement blocks instead of increasing the rent. Moreover, the tenement stock was a sort of “gift,” and the municipalities received relatively huge sums from privatization—no matter how low the price of the housing that was privatized

Table 10
Ratio of Small Flats and Average Foot Space of Privatized Tenement Dwellings in Budapest

Periods	Ratio of Dwellings Under 50 m ² [%]	Average Foot Space [m ²]
1980–89	16.4	71
1990–92	29.3	64
1993–95	37.8	58
1996–99	62.4	49
Unknown	39.1	59
Total	38.1	59

Source: Tomay 2002, 72.

(Dániel 1996, 205). In fact, the municipalities got far less than they had expected, but they no longer had responsibility for the privatized stock, which turned out to be a great advantage (Dániel 1996, 222).

The majority of households sought material advantage and security from privatization (Dániel 1996, 205–206). The fear of abrupt increases in rents is often mentioned (Tomay 2002, 72), although the rents were theoretically frozen in 1993–94 (Hegedűs and Tosics 1994/2, 141). During a time of sharply increasing prices and economic decline, new owners sought to check expenditures on maintenance and to reduce housing-related costs. This often led to avoiding the rehabilitation of flats and blocks in privatized areas. Rents had covered only about half the actual maintenance costs; the true monthly payment, including rehabilitation costs, could rise to approximately half of the net monthly income (Ernst 1994, 46).

Many new owners soon regretted their house purchases, while others were very content. Better off households felt the advantages of privatization, while higher costs (which reached only 25 percent of the household budget) affected them little. Poorer new owners, on the other hand, had to confront household maintenance costs that grew quickly from an average of 9 to an unbearable 50 percent of the household income (Dániel 1996, 213–215). Due to the mass subsidization of rents and energy prices, several poorer groups had been able to afford relatively large dwellings that could not be maintained and supported under market circumstances (Dániel 1996, 213–215).

Table 11

Ratio of Household Maintenance Cost and Income by Income Quintiles, 1992

Income Quintiles	Ratio of Maintenance Costs
1 st (lowest)	49.2
2 nd	30.9
3 rd	26.7
4 th	22.8
5 th (highest)	15.1
Total	29.0

Source: Hegedűs and Tosics 1994/2, 148.

The value of the dwellings of the richest quintile of the society rose to 8.5 times that of the lowest quintile

in 1993, and those in the richest quintile earned seven times as much as those in the lowest. Meanwhile, the income of occupants of the most expensive dwellings was only two times as much as that of the occupants of the least expensive dwellings (Hegedűs 1998, 52).

The privatization of the public housing stock has been heavily criticized. Critics primarily argue that low privatization prices further subsidized an already heavily subsidized group. The equivalent of eight to ten years of average income is estimated to have been given away to the occupants of better quality dwellings through privatization (Dániel 1996, 212). This argument, however, disregards the fact that a great deal of the rental rights in the state sphere during the socialist epoch was bought on the gray “market” and not granted (see above). Moreover, profit could only be realized through sale of the dwellings, and only 18 to 20 percent of the privatized stock was sold by 1999 (Tomay 2002, 72). This is not to say that there was no privatization gain, or that the gain was evenly split between social strata. Without doubt, the better off received much more, whereas households remaining in the communal system were clear losers (Dániel 1996, 217–221).

Other critics stress the social disadvantages of the almost total loss of the communal housing sector (Tosics 2000, 138–139). First, the development of new housing communities was abrupt and forced, limiting the cooperation among owners. (That is, families of different needs and financial means need to cooperate.) This now causes problems as some families cannot accept the suggestions and requests for maintenance and improvement put forth by others, or simply cannot finance the higher monthly payments required to finance those improvements. Under present laws, the poorest and the least ambitious families can generally block any renovation or rehabilitation. The mass privatization virtually thwarted the grand scale rehabilitation of the deprived, especially inner areas; this remains one of the major housing problems (Hegedűs et al. 1994, 59).

Second, although the number of those who would prefer tenure to home ownership is not clear, the demand of the households that would prefer to rent and not possess their own dwellings remains unfulfilled. From a political point of view, the disappointment of the privatization “losers,” as well as those who gained less than expected, is problematic (Dániel 1996, 222–223).

The prices of dwellings have been high compared to average incomes. In 1994, the purchase price of the average dwelling was six to nine years of the total income of an average household (Hegedűs et al. 1994, 64; Ernst 1994, 47) where an equivalent of three years income would be regarded as ideal (Szántó 1994, 67) as applied to the richest strata (Hegedűs and Tosics 1994/2, 147).³

Table 12

Ratio of Average Dwelling Price and Annual Average Income by Income Quintiles, 1992

Income quintiles	Ratio
1 st (lowest)	12.0
2 nd	7.1
3 rd	5.4
4 th	4.3
5 th (highest)	3.1
Total	6.4

Source: Hegedűs and Tosics 1994/2, 147.

The quantity of housing was widely regarded as sufficient among policymakers and experts until recently, and subsidizing new housing construction was seen as unnecessary. Many experts still hold this view (Locsmáncsi 2000, 76). But, the low level of new construction has been regarded recently by some as one of the major housing problems, although other experts stress the role the poor allocation of the existing housing stock plays in the problems in housing sector. They emphasize, furthermore, the difficulties of purchasing their first dwelling, since entering the housing market is a major problem for many (Hegedűs and Tosics 1996).

In the early 1990s, the purchase or construction of a dwelling required 40 percent of individual resources; an average of 20 percent of the construction or purchase price was given by the state as a direct subsidy (see above). As an average, the total sum of loans made up merely 40 percent of the total cost of housing construction. In 1995, the entire sum of mortgage loans was only 15 percent of its 1990 value (Hegedűs 1998, 53). That later fell in value to 7 percent in 1997 (Hegedűs and Várhegyi 1999, 104). The

Table 13

Total Loans of Households at Banks by Type [Billion HUF]

End of Period [Year, Month]		Property Loans	Consumption and Other Loans, Excluding Property Loans
1990	December	289.5	84.5
1991	December	166.7	96.7
1992	December	173.1	112.2
1993	December	192.4	133.0
1994	December	186.1	176.9
1995	December	169.4	156.0
1996	December	149.1	147.5
1997	December	137.4	138.0
1998	December	127.7	184.5
1999	December	129.2	286.9
2000	December	190.8	409.1
2001	December	330.1	551.0
2002	January	337.7	557.2
2002	November	739.4	694.3

Source: Magyar Bankszövetség 2002. IV. *negyedévi jelentése*. http://www.bankszovetseg.hu/jelentesek_4negyed_2002.htm.

system of finance had to be modernized (Hegedűs et al. 1994, 60–63) and the virtual monopoly over mortgage credits by OTP had to be broken (Hegedűs and Várhegyi 1999, 107–108). Others stress that under such bad economic circumstances, no financial system could ease the housing situation of the poorest strata; economic recovery was needed (Szántó 1994, 68–69). (Table 13)

The construction of state-owned housing stopped during the transition years, which was regarded as a major obstacle in the development of a sound housing market (Hegedűs et al. 1994, 62). The state began to assist municipal social tenement construction in 2000, but the process has been slow and the majority of municipalities are not eager to be involved, fearing a negative response from voters. (Table 14)

The number of mortgage loans was low until the year 2000. Banks were not keen to give mortgage credit due to the difficulties in enforcing mortgages (see above). Views on the necessity of a quantitative increase in the housing stock were revised in 1999, and subsidizing new construction became a focal point of governmental policies. Large amounts of new construction were seen by many as a major contributor to economic growth. Laws have since been adopted, and new forms of interest subsidies have been introduced that increase both the number of loans available for financing construction and for purchasing new and existing flats and houses.

Four main forms of aid are available in the present system of housing finance. In the first (called the social-political subsidy), a sum of money is given to a family according to the number of children. The subsidy can be used for the building or purchasing of a family's first home, but cannot be more than 65 percent of the home's market value in case of new

construction. Earlier, such subsidies were given only for newly built dwellings (see earlier) but today some forms of this aid can be used -to buy existing homes as well. This is perhaps the most widely used form of subsidy, especially among the lower socioeconomic strata of society (Tomay 2002, 73-74).

Second, the government subsidizes a form of deposit in building societies that appeared after the repealing of the Law on Building Societies in 1996 (Act 1996/LXII). It has very low interest rates, and a large extra sum can be received after a certain period if used for construction or reconstruction of a dwelling (Tomay 2002, 75).

Third, the central government subsidizes interests on mortgage loans. This subsidy initially applied only to the construction or purchase of new homes. Later, it was extended to the purchase of existing homes, with modifications to balance the housing market in those situations where the market for new dwellings had flourished, while the market for existing houses had stagnated. Basically, the central government provides a long-term loan for an amount that heavily depends upon whether the family has children or not. The purpose of this subsidy is to reduce the amount of monthly installment payments. (Hegedűs and Várhegyi 1999, 117). The requirements for taking that loan (such as financial status) were further eased and the subsidy was raised in 2000. The OTP bank has had a near monopoly in mortgage lending, and remains prominent. Since 2000, other banks have made great efforts to enter this market.

Fourth, since 1993, the state has given tax relief for the installment payments on mortgage loans. These credits are for up to 20 percent of the total amount of annual installment payments (Hegedűs and Várhegyi 1999, 117).

Table 14
Housing Conditions in Budapest and in Hungary in 1996

	Number of				Number of Inhabitants per Hundred	
	Total	Inhabited	Uninhabited	Inhabitants in	Dwellings	Rooms
	Dwellings [Thousands]					
Budapest	815	777	38	1,855	239	105
Country	3,991	3,767	224	9,978	281	109

Source: Gratzl and Szűcs 1997, 670.

These different forms of subsidies favor the upper socioeconomic strata of society, except for the social-political subsidy. The construction of houses abruptly increased from 1999–2000, the consequences of which cannot be determined at the time of writing. It can be argued that the sheer increase of homes built annually has not eased tensions among members of the lower socioeconomic strata of the society, who are still seeking adequate and affordable housing.

2.2 Housing the Poor

The situation of a large stratum of the Hungarian society worsened quickly in the years preceding and following transition. Housing expenditures have increased and take up a larger portion of the family budget. The following section deals briefly with the special situation of those comprising the bottom of the housing poor—the homeless—and then with wider aspects of the lower sections of the housing market.

2.2.1 *The Homeless*

The sudden appearance of large numbers of homeless in major cities was a clear sign of social change for many Hungarian citizens. State socialism did not acknowledge the homeless or unemployed; moreover, it criminalized them. Homelessness was regarded as a legal offence. Only a certain group of homeless—runaway children—was officially mentioned before 1989 (Dávid and Snijders 2000, 60). Words such as “poverty” and “homelessness” were taboo; they were banned in the official media and in political discussions. There was only one shelter in Budapest with sixteen beds: “The House of Lords.” The number of homeless was undoubtedly higher than 16, but no official estimates exist—either because those in urban areas without a residence lived in workers’ hostels, or because they had been arrested or warned off by the police and thus were not visible (Bognár and Udvari 1998, 241–242).

Transition in 1989 brought about many changes in homelessness in a very short period of time. Factories that had run workers’ hostels were privatized, and new owners soon shut them down. Second, laws were changed and the offense of “vagrancy” was repealed, thus releasing thousands of prison inmates

who immediately became roofless. Third, the police no longer had the authority to deter the homeless. As a result, thousands arrived in cities where there had previously been “none.”

There is no clear definition of homelessness in Hungary, and the law on the subject operates with two different definitions. The first widely refers to any person lacking a permanent reported residence, or residing in a homeless shelter. The second, narrower definition, commonly accepted in Hungarian public narratives, refers to those who spend nights in public areas or in places unsuitable for habitation (Dávid and Snijders 2000, 63). Recent studies attempt to redefine the term, and bring it in line with the British conceptualization—thereby introducing the term “roofless” instead of homeless. “Homeless,” rather, is used in a wider sense, in reference to those who lack appropriate housing of any sort; it is regarded as an integral part of the housing system. (Bényei et al. 2000). Despite efforts by supporters of the latter definition, the narrower, older definition is commonly used.

Estimates of the number of homeless are uncertain, and vary between 10,000 and 60,000 on the national level (Dávid and Snijders 2000, 66). Several features of homelessness make any estimation difficult. Moreover, as mentioned earlier, definitions of “homeless” and “homelessness” are not clear; the hidden and fluctuating nature of this phenomenon further complicates and encumbers assessments (Bényei et al. 2000, 67 and Dávid and Snijders 2000, 61). Nonetheless, the number of Budapest homeless is widely accepted to be between 8,000–15,000 (Bognár and Udvari 1998, 242, Dávid and Snijders 2000, 69). It is commonly believed that the number of homeless is stable, that approximately half of all homeless in Hungary live in the capital city, and approximately 80 percent of the homeless in the capital arrive from provinces.

Two new sets of circumstances affect homelessness in Hungary. First, youth from state foster homes (approximately 2000 a year) leave without sufficient resources for accommodation; many become homeless. Second, about half of all divorcees (10,000–15,000 people) terminate their relationships without the financial means to buy or rent a flat (Bognár and Udvari 1998, 242). A recent study found that: two-thirds of Budapest’s homeless mention individual problems, including divorce, as the cause of their

homelessness; one-fifth mention troubles directly connected with accommodation (eviction, deterioration of accommodation); and one-seventh mention “economic-institutional” problems (related to hospital, prison or foster homes) (Bényei et al. 2000, 70).

Concerning the social composition of the homeless, most (55 percent) are between 30 and 49 years old; this age range comprises only 36.5 percent of Hungarian society as a whole. Older generations of homeless are well educated, while those under 30 years of age have comparatively little education. The majority of the homeless is male (70–80%), and does not use the various official homeless shelters. Approximately half of the homeless overall, and only a quarter of all male homeless, have taken advantage of such facilities. Slightly less than half of female homeless have spent more than one consecutive night in a hostel (Bényei et al. 2000, 76–84).

As a rule, governments allocate certain sums according to established guidelines to organizations such as schools that provide agreed upon services for the homeless. In general, municipalities in Hungary are responsible for social affairs in their territory, but other organizations may also run social services. The central government grants municipalities an amount to perform certain tasks or run particular programs. In 1998, central government resources financed 90 percent of municipal government programs. Other, non-governmental organizations, especially ecclesiastical ones, have played a minor role, but their importance is gradually increasing. Their financial resources, however, usually come from the state through channels independent of local authorities. These organizations receive the same per capita grants from the central budget as do municipal organizations, channeled either directly or through the local budget (Bognár and Udvari 1998, 243).

Various programs have been introduced since 1989, which are based on three main forms. The first form is aimed at supplying temporal shelter for a short period during the cold seasons. Institutions offering shelter for the night is the major type of such shelters, in which the possibility to wash is usually available. In addition, designated rooms offer a place for a short stay to warm during the daytime. Secondly, free meals are given at various locations around the city on a “first come, first serve” basis for all who arrive, homeless or not. Thirdly, interim hostels provide shelter

for up to six months, some of which are reserved for mothers and their children.

There are four thousand spaces in homeless shelters countrywide, with two thousand in Budapest. Many critics, especially social workers, find the number insufficient; however, the small number of homeless (some hundreds) left in the streets at night indicates that a quantitative increase in beds is not urgent (Bognár and Udvari 1998, 243). Others warn against the over-institutionalization of the problem, and stress the role of individual care (Bényei et al. 2000).

Two major reasons for the dramatic increase in homelessness can be found in the relevant literature. The first approach stresses the negative effects of the conversion of housing from socialist to capitalist patterns, and disparages the role of social and mental factors in the individuals’ life course. This macroeconomic approach assumes that the primary reason for homelessness is the shortage in housing, the cessation of social housing construction and high rents. As mentioned, the construction of new houses fell significantly during transition; the socioeconomically better off built the majority of new homes. The average monthly rent for a flat was HUF 500–600 per square meter in Budapest in 1996 in the informal, or gray, sector (Erdősi 2000, 76–77). By 2003, this grew to HUF 1000 per square meter in less desired places, and to HUF 2000 per square meter in more desired places (informal source). This has presented a significant burden when the average gross monthly income is HUF 162,000 in Budapest and HUF 129,000 countrywide (*Magyar Hírlap*, 21 May 2003). The massive construction of social tenement houses appears to be one logical solution (Bognár and Udvari 1998, 242).

The second approach stresses the role of social and individual factors (anomie) in creating homelessness, and blames the present system for alienation and over-institutionalization. As mentioned earlier, it places the situation of the homeless in the wider context of the housing poor, and regards homelessness not as an isolated phenomenon but as a stage in housing poverty that can be passed through (Bényei et al. 2000, 68). In this context, a much more complex program is required to ease the situation that arises from the general problems of the housing poor (Bognár and Udvari, 70).

2.2.2 *Situation of the Housing Poor and Related Programs*

The cost of housing maintenance in the country has grown rapidly, in absolute as well as in relative terms. On average, housing maintenance comprised one-third of total household incomes in 1998, compared to one-fifth in 1992 (Monostori 2000, 67). Both the price of housing equipment and the expenditure on loans increased (Dóra 1999, 109-110). By 1995, a stratum of permanent poverty emerged that included 12 percent of all households (Hegedűs 1998, 52).

The following section describes the characteristics and circumstances of the social stratum that are officially described as housing poor in Hungary, and entitled to receive a housing maintenance subsidy. A different definition of housing poor might be more accurate, as the official definition considers certain aspects of poverty and disregards others. Nevertheless, it can be said that the general composition of those who receive this type of subsidy, or some other social subsidy, follow analogous patterns compared with the stricter definition of housing poor. The use of this data is therefore advantageous for the purpose of this study (Harcza 1999).

Social subsidies are distributed in Hungary by municipalities within the general national framework. There are three major types of subsidies in the Hungarian social system according to function. The first type is primarily meant to compensate for arrears of income. It includes unemployment relief, child protection subsidy and regular social help. The second consists of subsidies that are targeted to those households whose expenses in certain categories are high compared to their income. The use of the subsidies of this type is fixed. Housing maintenance subsidy, public medical service and support of disabled fall in this category. The third type includes interim subsidies that can be given if a need for money arises that is beyond the family's financial abilities. This sort of subsidy is not given on a regular basis (Monostori 2000, 85).

Municipalities are relatively free to alter the framework of some central government laws. Most municipal income comes from the central government, which allocates amounts ("normatives") according to several indicators to accomplish certain social goals—such as to provide housing maintenance subsidies. Local

authorities have the right to reallocate, complement or reduce this sum within a range, provided that the adjustment does not endanger accomplishment of the subsidy program's objectives.

Families that are in need of housing assistance can receive a subsidy within the framework established by the national social law. Municipal authorities provide aid, the conditions of which they can modify through by-laws. According to the general law, municipalities may grant maintenance aid to families when: 1) monthly net income per person does not exceed the amount of the minimal pension; 2) the flat fits within the size and quality of the local average; and 3) maintenance costs exceed 35 percent of the total income or the cost of heating exceeds 20 percent of total income. The income threshold is more than twice as much as the statistical poverty line, and much higher than the thresholds for other social help. The social policy thus subsidizes not only the poor but the lower middle class as well. The system may, meanwhile, require the high consumption of utilities, especially for the middle class, which may fall within the subsidized category because of what they spend on utilities, not because of their poor financial status (Monostori 2000, 67–69).

Municipalities do not usually change the basic conditions of the general social law; rather, in various respects, they amend them. The most common modification that occurs with housing maintenance subsidies is the establishment of the maximum size of a flat that can be subsidized. Instead of flat size, the municipality may correlate a subsidy with the size of a household (Monostori 2000, 75). The types of expenses that are included in maintenance costs are strictly defined in the general social law. Although not legally authorized, municipalities often include additional expenses (such as local residential taxes, cable television subscription, and so on) as maintenance costs (Monostori 1999, 60). In practice, however, the authorities usually use a family's income as the threshold for granting a subsidy (Dóra 1999, 114). (Table 15)

A significant percent of households are entitled to these subsidies. In 1997, a quarter of all households received a maintenance subsidy; 81 percent of these also received other forms of social subsidies (Monostori 1999, 61). The maintenance subsidy comprises only small part of all social subsidies. Just over 7 percent of households in Budapest and 12.5

percent of households in the country that receive one kind of subsidy receive the maintenance subsidy, as well (Monostori 1999, 65). Over 10 percent of households in Budapest and 14 percent of households countrywide that receive two kinds of social subsidy receive interim subsidy in addition to the maintenance subsidy. Just over 8 percent of households in Budapest and 6 percent across the country received public medical service. Subsidized households can be characterized as small, single-member, and elderly (Monostori 1999, 70–73).

Households receiving two or more forms of social subsidy (other than the maintenance subsidy) are the poorest of the subsidized groups. They tend to be young; many receive child-protection subsidies and income supplements. Seventy percent have young

children (usually two), and 20 percent are one-parent households. Those that receive assistance other than the child-protection subsidy are also primarily young families with one or two children; this group includes small households above sixty years of age, as well. This group receives a maintenance subsidy and income supplements. The last group that receives child-protection subsidy, maintenance subsidy plus some other subsidies, not yet mentioned, is made up of single parent households that usually have more than one child (Monostori 1999, 74–80). (Table 16)

Sources suggest that two-thirds of households in the lowest income quintile, nearly half in both the second and third quintiles, and a quarter in the fourth quintile, are entitled to the maintenance subsidy (Monostori 2000, 69).

Table 15

Expenditures of Accommodation Maintenance as a Ratio of Household Income by Settlement Size, 1998

Settlement Size	Quintile of per Capita Annual Income					
	1 st	2 nd	3 rd	4 th	5 th	Total
<2000	31.1	31.6	29.2	23.6	23.3	29.0
2,001–10,000	38.7	34.7	31.9	27.7	23.4	32.2
10,000–50,000	43.8	31.3	35.1	33.0	28.7	34.1
>50,000	43.0	39.4	39.2	34.5	24.2	34.6
Budapest	47.7	37.8	41.2	33.6	25.4	33.6
Total	38.6	34.5	34.5	30.7	25.5	32.6

Source: Monostori 2000, 71.

Table 16

Distribution of Households by Size and Number of Received Social Subsidies in Hungary and Budapest, 1997/1998 [%]

Size of the Household, Persons	Hungary			Budapest		
	1 Sort	2 Sorts	3 or More Sorts	1 Sort	2 Sorts	3 or More Sorts
1	40.6	26.6	10.4	65.9	29.1	14.9
2	28.4	21.6	13.9	20.7	19.3	16.1
3	14.5	20.1	20.7	7.4	22.0	24.5
4	11.0	19.0	25.6	3.7	16.9	24.2
5 and more	5.5	14.7	29.4	2.2	12.6	20.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Monostori 1999, 70.

High maintenance costs have a significant impact on the urban poor, especially in Budapest. Municipalities have the right to alter the terms and the amount of maintenance subsidies. In urban areas, it is typical for assigned amounts to be higher than in rural municipalities—which are generally poorer, and tend to assign different forms of subsidy. In major urban centers, the maintenance subsidy takes approximately 10 percent of the overall central government subsidy normative (Monostori 2000, 72–73). (Table 17)

The increase in expenses has been particularly detrimental to single-member and one-parent families; in such cases, overhead takes up half the household income (Dóra 1999, 110). The largest portion of subsidized urban families (43 percent) lives in housing estates, which contain less than one-third of the urban housing stock. The maintenance costs of flats in housing estates are high, and the population tends to be poor. Consumption of utilities cannot be regulated. Single-member subsidized households are typical in housing estates—an indication of both the affordability and the low social status of such housing. The number of subsidized families is also high (17 percent) in centrally located municipal tenement blocks than overall (less than 10 percent). As expected, the number of subsidized families is smaller in neighborhood of family homes, and average in central, densely populated areas. Subsidized families occupy 30 percent of flats that have been privatized since 1990, compared to 5 percent of the urban hous-

ing stock in general. It appears as though low rents have been succeeded by maintenance subsidies since privatization; as a result of this processes, families of low socioeconomic status tend to predominate in the remaining tenement sector (Monostory 2000, 74–75, 79, 82).

The cost of heating, approximately 46 percent of wintertime household related expenses for subsidized families, comprises the major element in maintenance costs. (Székely 1999, 95). Dwellings with communal central heating, whether in housing estates or in older central areas, are over-represented among subsidized households, due to the high cost of heating. (Monostori 2000, 78). Moreover, communal central heating cannot be regulated. Households are not able to reduce the amount of heat received through pipes from the central distributive centers, while one-third of subsidized families do not heat the entire dwelling, especially those with independently heated rooms (Székely 1999, 96). (Table 18)

Subsidized families are usually small (one person), with relatively high income and high housing expenditures; less often, they are large (more than five people) with low per capita income and relatively low housing expenditures (Monostori 2000, 79 and 84). Single-member households tend to be pensioners, while large families are usually young adults with many children (Monostori 2000, 87 and Harcsa 1999, 28). Single, middle-aged men with low and unstable incomes, who are under- or unqualified for any subsidy, are

Table 17
Subsidized Households and Amount of Subsidy by Settlement Size, 1997

Settlement Size	Subsidized Families per 1,000	Amount of Annual Subsidy per Flat [HUF]
<500	51	5,972
501–1,000	50	4,993
1,001–3,000	49	6,215
3,001–5,000	61	7,494
5,001–10,000	72	9,218
10,001–20,000	118	13,604
20,001–50,000	95	14,768
>50,001	81	16,563
Budapest	70	12,715

Source: Monostory 2000, 72.

Table 18
Annual Price of Heating by Heating Method in Subsidized Households, 1998 [HUF/m²]

Method of Heating	Budapest and County Centers	Hungary
Communal central	145	134
Dependent central	96	102
Independent room with gas	94	94
Independent room with other material	95	97
Total	109	104

Source: Székely 1999, 95.

Table 19
Index of quality of Flats by Dwelling Types in Urban Areas, 1996 and 1998

Indicator of Quality	Type of Dwelling					
	Family House		Flat in Condominium or Tenement Building		Flat in Housing Estate	
	Subsidized	Total	Subsidized	Total	Subsidized	Total
Individual central heating	35.3	47.7	11.3	21.7	7.2	9.9
Communal central heating	*	0.3	30.9	16.8	79.3	66.3
Gas heating and bathroom	19.0	22.6	31.2	49.0	8.3	20.9
Other sort of heating and bathroom	23.7	11.6	16.9	2.1	3.8	0.1
Other sort of heating, no bathroom	20.3	17.8	9.6	10.5	*	2.9
Total	100.0	100.0	100.0	100.0	100.0	100.0

* Insufficient amount of cases.

Source: Monostori 2000, 78.

in danger of falling out of the housing market and of becoming homeless (Dóra 1999, 110). (Table 19)

Concerning the quality of dwellings of households receiving maintenance subsidy, and measured by type of heating and the existence of bathroom, subsidized families are over-represented in flats with a bathroom and with communal, central heating or other, disadvantageous, non-gas types of heating. They are, however, slightly underrepresented within the strata living in tenement buildings without bathroom facilities or proper heating. As such, a fragment of the population is part of a system in which a certain level of maintenance cost is needed for subsidization. The inability to enter the system is likely due to the low ratio of maintenance costs that result from minimal usage or the virtual lack of utilities (such as

heating and bathroom facilities) as a consequence of poor equipment in the dwellings of the lower socio-economic strata (Monostori 2000, 76–79). Data also reveal that the undereducated are generally under-represented nationally among the subsidized, but the inverse is true in Budapest, which indicates that social programs are not reaching the lowest classes except in the capital city (Harcsa 1999, 37–38).

The general housing conditions of households receiving housing maintenance subsidies are not significantly worse than the national average. As mentioned earlier, the income threshold is relatively high; in addition, many households have remained in larger dwellings than they are able to maintain (as a result of the low mobility rate in Hungary) and are therefore entitled to subsidization (Dóra 1999, 107,

110; Tosics and Hegedűs 1994/2, 145). The rate of mobility is low within all strata of society: in 1993, approximately 8 percent planned to move in the following year (Hegedűs 1998, 53). (Table 20)

The number of flats owned by the municipality is higher among subsidized households, and the size of their dwellings tends to be smaller. When smaller flats are combined with a larger household size, the subsidized housing environment becomes quite crowded. (Table 21)

The major group of subsidized households in Budapest lives in municipally-owned or recently privatized flats. The number in need is high among those who have not been able to buy their dwellings, or in which the municipality has not been able to privatize—in many cases due to the poor condition of the housing block. On the other hand, many of the less wealthy bought their flats during privatization: 15 percent of those receiving subsidies live in privatized tenement flats while the national average is 13 percent

Table 20

Distribution of Households by the Sort of Ownership and by the Number of Rooms in Hungary 1998 [%]

Dwellings in		Subsidized Households	All Households*
Private ownership	Total	86.8	92.4
	one room	15.6	12.8
	two rooms	44.8	45.9
	three or more rooms	26.4	33.7
Municipal ownership	total	10.9	6.1
	one room	4.6	2.5
	two rooms	5.7	2.8
	three or more rooms	0.6	0.8
Other forms of ownership		2.4	1.4
Total		100.0	100.0

* In 1996.

Source: Székely 1999, 88.

Table 21

Ownership and Type of Dwellings in Budapest and Hungary, 1998 [%]

Dwellings	Subsidized Households		All Households (1996)	
	Budapest	Hungary	Budapest	Hungary
Pre-1960 family house	7.6	24.9	12.5	28.3
Post-1960 family house	5.6	36.0	10.0	33.5
Private flat in tenement block	39.6	11.3	31.7	13.2
Private flat in housing estate	5.9	14.6	28.5	17.5
Municipal tenement dwelling in housing estate	1.2	2.3	3.4	1.7
municipal tenement dwelling elsewhere and other	40.1	11.0	13.9	5.9
Total	100.0	100.0	100.0	100.0

Source: Székely 1999, 89.

(Székely 1999, 91). Overall, in urban areas, the housing poor are concentrated in the municipal tenement houses (Székely 1999, 99) and in certain, economically deprived, privatized areas. (Table 22, Table 23)

The quality of dwellings in regard to floor space of subsidized families is worse in Budapest than the national average. It can, however, be argued that the difference between subsidized households and households overall is not significant in Budapest.

In 1998, among subsidized families, 17 percent had one or more bills and fees in arrears and eleven

percent had unpaid household maintenance bills. More than half of those with debts had at least two unpaid bills. Water, electricity and heating costs were most frequently not paid in time (Dóra 1999, 115). The same year, subsidized households listed the increasing cost of maintenance, unemployment and problems related to the upbringing of children as major factors behind their present problems; divorce, illnesses and medical costs were also mentioned (Monostori 2000, 80-81). Several surveys reveal such patterns (see Table 13). (Table 24)

Table 22

Ratio of Self-contained Dwellings by the Type in Budapest and in Hungary, 1998 [%]

Dwellings	Subsidized households		All households (1996)	
	Budapest	Hungary	Budapest	Hungary
Pre-1960 family house	84.6	46.2	82.5	52.2
Post-1960 family house	78.9	72.8	94.8	85.2
Private flat in tenement block	85.3	89.0	92.6	94.4
Private flat in housing estate	91.9	92.4	98.8	99.0
Municipal tenement dwelling in housing estate	100.0	88.9	94.7	96.0
Municipal tenement dwelling elsewhere & other	57.8	53.2	66.3	68.0
Total	74.4	69.1	89.7	78.6

Source: Székely 1999, 90.

Table 23

Average Floor Space by the Type of Dwelling in Budapest and Hungary, 1998[m²]

Dwellings	Subsidized households		All households (1996)	
	Budapest	Hungary	Budapest	Hungary
Pre-1960 family house	53	65	69	70
Post-1960 family house	69	84	98	93
Private flat in tenement block	54	55	64	63
Private flat in housing estate	56	54	53	54
Municipal tenement dwelling in housing estate	40	49	49	49
Municipal tenement dwelling elsewhere & other	44	46	50	53
Total	51	67	63	73

Source: Székely 1999, 91.

Table 24
Causes of Material Hardship Amongst the Subsidized Families in 1998 [%]

Causes of hardship		Ratio of households
Drop-out of the wage-earner	Total	71.9
due to	Unemployment	41.9
	serious illness, disablement	21.7
	child care	8.3
Increase of maintenance costs	Total	60.5
due to	increasing overhead	52.3
	increasing interest rates	8.2
Increasing cost of child nursing		29.6
Increasing medical expenditures		23.8
Superannuation		15.5
Decease		11.3
Divorce		9.8
Other		1.6

Source: Dóra 1999, 110.

3. POLICY OPTIONS

Policies regarding housing in general and the housing poor in particular have been on the agenda in Hungary for a number of years; problems have been discussed both in academic and political circles. This paper largely relies upon the present housing discourse, but also provides a wider perspective on the subject. The policy alternatives suggested are intended to be realistic and financially feasible. The advantages, disadvantages and the limiting factors of the proposed policies are addressed. The policy options for the homeless are dealt with briefly, as this paper does not focus on their situation.

The subject of housing is closely related to other societal phenomena. The quality of housing is of principal importance to the well being of individuals and of society as a whole. Construction and related industries are fundamental to the general economy, and contribute a significant amount of income to the national budget through taxation. Any changes in housing policies will therefore invoke intense responses from citizens, the economy, and the state.

On the other hand, any change in the conditions of the economy, and of the national budget, will generate a shift in housing and in housing policies. The present political debate on these issues and rapid changes of conditions, as mentioned in previous chapters, complicate an accurate, up-to-date description of the situation. Policy options, however, can be examined.

Housing in general is part of the political discourse in Hungary on the national level, but the problems of the housing poor are little discussed or debated. Generally speaking, the discussion focuses on the housing problems of the middle class. It is local municipalities, and mostly the poorer, less influential ones, that are affected by, and must face the problems of, housing poverty.

Housing conditions are an important aspect of urban politics as well. The rapid suburbanization of Budapest, and the impoverishment and social and physical decay of certain central areas, has evoked a response among experts and policymakers in the city. Retaining the middle classes in central areas, promoting the youth to seek housing in these neighborhoods, renewing the housing stock and easing the situation

of housing poor have been set as priorities (Tosics 2000, 135).

There is no “perfect” solution to housing poverty. Such a solution would impose too great a financial burden upon society as a whole. Furthermore, housing poverty is a phenomenon with causes that exist ubiquitously; proposing one or more “ultimate” solutions would be an unproductive oversimplification. Various tools and methods have been fashioned to ease the problem, each of which is strictly constrained by available financial resources.

In Hungary, the lack of sufficient financial resources to implement housing policies is particularly acute. Poor families cannot afford to pay for basic, essential housing costs, but a large portion of the middle class is hardly able to maintain their present housing or secure decent, safe and sanitary housing conditions. Local authorities, responsible for dealing with almost all the social problems within their jurisdiction, have very limited resources, especially those with large poor populations. Recently, the national economy has worsened, and budget deficits have soared compared to conditions two or three years ago. Governmental resources that were spent on housing have been among the first to be sharply reduced.

The following policy options are divided into three major groups: 1) policies relating to those who already have housing; 2) policies relating to those who do not have housing, but do not fall within the category of homeless; and 3) policies relating to the condition of the housing stock and the housing market.

3.1 Policies Relating to Those with Housing

More accurate targeting of the housing subsidy system is necessary in general. Many argue that the present system subsidizes those who are not really in need, and excludes those who require help. Other than a need for accurate targeting, subsidies should not be attractive to members of the upper classes, whose involvement would deplete the financial resources of programs and misdirect the system. As for targeted groups, the information provided should be in a user-friendly, comprehensible form.

The category of those who have housing is made up of owners and tenants, and their problems dif-

fer by nature. Rental housing can be in private or municipal possession. The number of tenants in the private market is uncertain. The number of tenants in the municipal sphere, although it has decreased significantly, is still relatively high. In the 8th District in Budapest (severely affected by poverty), the municipality still owns 8,000 dwelling units, many of them substandard. As a consequence of privatization, much of the municipalities’ stock of rental dwellings is substandard. During transition, municipalities had the right to deny privatization of dwellings in blocks that were determined to need rehabilitation or were otherwise in bad shape. Municipalities were reluctant to sell these dwelling units for fear of having to pay future possible compensation to the purchasers if problems occurred.

The mass redevelopment of poverty-affected areas cannot be carried out without the intervention of the central government. This subject is beyond the scope of this paper; redevelopment, however, would often be the appropriate answer to poor living conditions. The condition of a great deal of municipal tenement blocks, and of privatized blocks, is so poor that demolition may be the only viable solution. The present academic discourse does not promote demolition as a solution, but in many cases, it could be a workable solution when other means of improving conditions do not work or are too costly. Any large-scale redevelopment presumes an existing housing stock to which families could temporarily or permanently relocate. At present, families are often moved to cheap, blighted neighborhoods during the redevelopment of remote areas of the city, further diminishing their quality of life. Affected municipalities object to the redevelopment process, but with little success, as organizations and other municipalities carrying out redevelopment are not legally obligated to move relocated families into nearby neighborhoods, only to dwellings of similar quality. As for small-case intervention, a targeted subsidy system could be an option in cases in which certain improvements would significantly upgrade the conditions of families, and even reduce maintenance costs—for example, new heating methods, improved insulation, and so on. The poor quality of housing and lack of utilities is problematic for both homeowners and tenants.

High maintenance fees appear in two major forms. First, the monthly condominium mainte-

nance and operation fees often do not cover actual maintenance, operation, and capital costs. This results in deferred maintenance and capital improvements and the need for substantial fee increases or special assessments to pay for essential rehabilitation. The community of the condominium, if it is willing, may use existing financial and legal tools to address this problem, such as increasing the fees and attempting to collect them from those who are not willing or able to pay, and if it proves insufficient, or encumbrance could legally be registered on the particular flat. Families in need may also ask for subsidies from the local authorities (as described in earlier chapters). Furthermore, municipalities can provide support for needed rehabilitation, although the support of the process and of organizing the rehabilitation could be a municipal task. Now, condominiums of at least six flats may apply for grants from a fund managed by the central Budapest municipality for certain a of the total cost of the reconstruction that could further be complemented with grants and interest-free loans from the local authorities in Budapest the conditions of which are set in bylaws of the particular municipality. Local municipalities also run such programs independently from the central municipality, and local municipalities may apply for the central grant for the renovation of the municipal tenement blocks. The actual rates of subsidies depend on the location and the purpose of the renovation and are set annually. The utilization of the above system often fails because the condominiums lack the suitable and agile person(s) who could organize the project. The municipalities could help by setting up supporting services and informing the homeowners.

High maintenance fees also arise when families, either owners or tenants, are unable to pay their actual housing expenses. The present subsidy system attempts to tackle the problem by granting maintenance subsidies but often fails to locate those in need because it basically takes the ratio of maintenance costs within the family income as a condition, while the cost of maintenance is low where basic utilities are lacking and thus the ratio will be too low for the subsidy. The income threshold is too high—higher than poverty thresholds calculated through any other method—and includes a large portion of the middle class (Monostori, 2000, 68). Moreover, the system favors those who have the necessary information on the

existence and the conditions of subsidies and have the competence to complete the necessary papers; there are few attempts to reach those not part of the system. Meanwhile, since the subsidy fund is limited, broadening significantly the range of the subsidized would soon deplete resources. By subsidizing those who are not in arrears, the subsidy system excludes many families who are in need. Whereas the system should award those not in arrears and should act towards hindering from becoming in arrears, a significant proportion of the poor cannot emerge from arrears. A well targeted system could improve their situation and help them by-pass continuous arrears.

In addition to the previously mentioned system refinements, there are various other options for helping families in need. Re-nationalization of dwelling units has been suggested as a viable option, but for reasons expressed below, this is not a viable solution. Providing families support in finding another, more affordable dwelling is another option, but this would also require relaxation of the existing taxation system to allow greater mobility (see below).

The reverse mortgage, which has been introduced in some municipalities (like in 13th district in Budapest in 1998), could be made available in other areas. In this district, people above the age of 62 may participate in the program as annuitants, and would-be buyers as reversioners. For the transmission of the ownership, the annuitants receive a monthly installment depending on the age of the annuitant and the actual value of the flat. The annuitants can occupy the flat until the end of their lives or until they move to a retirement home. The installments are annually adjusted to the inflation rate. Reversioners pay a monthly fee to the organizer (which, in the case of 13th district, is the local municipality) for a given period of time (four to twelve years). The actual sum of monthly installment depends on the length of the time the reversioners undertook. Reversioners have right of possession of the dwellings of the deceased annuitants if they are able to pay the difference between the sum they have already paid and the value of the particular dwelling. Furthermore, the municipality covenants that reversioners obtain dwellings within one year after the time upon which they agreed to pay is over. The reverse mortgage provides retirees a reliable source of income for housing expenses, can guarantee utility companies that utility charges will be

paid, and assures the lender that the investment will not be lost if problems arise. By involving reversioners, the necessary financial resources can be kept low. It is disadvantageous for the heirs of the annuitant who may attempt to thwart the process. Resistance by relatives occurs many cases in a country where accommodations are a precious asset, and often difficult to obtain.

A traditional method of preserving a home in Hungary has been through “maintenance,” where a person or family agrees to support an elderly person or family at a predetermined level, possibly live in part of the dwelling, and take ownership of the home when the owner (or in some cases the renter) dies. This method can be considered a primitive form of reverse mortgage.

3.2 Policies Relating to Those Who Lack Housing

In addition to subsidized mortgage loans, a functioning rental housing market is essential to provide housing for those who do not own housing and who either do not qualify for, or cannot gain entry into publicly-owned housing. In spite of the subsidies, the purchase of a dwelling requires large sums of money, and is therefore not an option for the majority of the housing poor. The small number of municipally owned tenement units is an obstacle to housing the poor in Hungary, but a large-scale increase seems very unlikely in the near future. The re-purchase of privatized dwellings would require huge sums, and the purchase of dwelling units at present market prices would hardly be justifiable given the low prices at which they were sold when during privatization. Purchase of units at a reduced price would be possible only from a small, economically deprived minority. On the other hand, municipalities are unwilling to purchase units because of the high cost of maintenance. In fact, municipalities still in possession of significant numbers of dwelling units are considering further privatization.

The eighth district of Budapest is planning to reduce its 11,000 unit housing stock to 4,000 from 6,000 by 2006, because it lacks the financial resources to maintain such a large number of units. Current municipal rents—HUF 55 per square meter for substandard and HUF 100 per square meter for standard

(market rent is approximately HUF 1000 per square meters)—do not provide sufficient revenue for operations and maintenance, which makes the municipal tenement stock a huge burden. According to the plan, the remaining tenement stock will be divided into two groups. The first group will consist of better quality dwellings that will be rented for a regulated rent that will cover maintenance and a small profit. The second group will include social housing that will be partly subsidized by revenues from better quality dwellings.

Such a division of the municipal tenement stock, on the level of the entire urban area, is suggested by many experts. It is advocated as a feasible means for the expansion of the municipal tenement sector, and thus it could abet the reconstruction, and stem the further loss of population in the central areas (Tosics 2000, 139).

Government policies have promoted the construction of municipal tenement blocks, and subsidies have been provided for this purpose. The number of dwellings built or planned, however, has been small, partly because municipalities (for reasons expressed above) are reluctant to take on new units. Moreover, the construction of social housing is unpopular with large segments of the public who fear having the poor and deprived in their neighborhoods. Despite the opposition, the construction of new municipal tenement blocks could be an attractive option if municipalities are no longer interested in further privatization. The equal treatment of the private and the municipal tenement spheres within the central subsidy system on the governmental side could be a possible means of preventing municipalities from selling their housing stock. This would allow the municipalities to raise rents to cover the costs and thus to subsidize those in really need.

The current administration, acknowledging the lack of governmental resources, has been considering assigning the responsibility for addressing the country’s housing needs to the private sector. The investment of private resources could produce a huge amount of rental housing if a large number of tenants have enough wealth to pay market rents, and if the taxation of tenure were advantageous. According to the existing plans, vouchers would be given to cover certain portions of the rent for families determined to need subsidized housing; provided that the private landlords agree to a regulated, official rent.

Regulated rent would be at about the level of the present private rent. Currently, the vast majority of private rentals are unofficial, to evade high rental taxes. These unofficial rental agreements are financially advantageous for both landlords and tenants. The establishment of a large, official, private rental market thus requires multiple efforts by diverse authorities. This includes the amendment of the laws related to taxation and the regulation of the rental sphere, in addition to establishment of a voucher program. On the other hand, the arrival of a new and plentiful demand on the rental sector would result in increasing rents, a disadvantageous side-effect for those who do not fall into the subsidized category. Although the present plan targets profit-oriented developers, its expansion to other, non-profit forms of developers and public-private-partnership schemes that involve private financial resources in public programs through various sorts of subsidies seems beneficial. Moreover, the incorporation of the municipal tenement sphere in the voucher system could relieve the present reluctance of municipalities to developing and owning tenement units. This option requires large governmental action and resources, but it could be a viable alternative if the voucher system included the municipal tenement sector, too.

The homeless form a distinct portion of those who do not currently have housing. Their problems are specific, and relate to other fields far from housing (such as health or psychiatric support). Concerning the present system of homeless care in Budapest, the quantity of beds in different shelters appears to be adequate, but the quality and the spatial allocation need to develop. The present system treats all homeless equally, regardless of their different needs; thus, diversification of the system is necessary. The total capacity of permanent shelters is small, and that of temporary shelters is comparatively high. The homeless are thus forced to use temporary shelters for longer periods than intended; as a result, the overuse of temporary shelters leads to their dysfunctional operation. The present system is inadequate in terms of helping the homeless permanently change their situation. Special organizations are needed, not only to provide housing, but also to help the homeless sustain their recovery. (Tosics 2000, 141).

The spatial segregation of the shelters does not directly affect the homeless, but as the shelters tend to

be concentrated in poor areas of the city, the cost of maintenance of the system weighs on the poorer municipalities. The spatial dispersion of the shelters and a sort of compensatory system would be advantageous for the entire system of homeless care.

3.3 Policies Regarding the Conditions of the Housing Stock

The unfavorable distribution of the housing stock is considered to be a major obstacle in Hungary. The mobility rate is very low compared with western societies, and the possession of a dwelling, which is a precious asset, often hinders the movement of individuals and families to another location where they could earn more income, or to a different dwelling where maintenance costs might be lower. Hungarian transfer taxes correspond to those in other European nations with higher rates of mobility, and they do not even apply to the difference between the selling and the purchase price if the new purchase is within one year of the sale. The low mobility rate thus seems to be a specific feature that is changing slowly. Legalization of the private rental sector has been attempted several times with little success; subsequent steps are needed. Furthermore, the equal treatment of different forms of the rental sphere could prevent the erosion of the municipal rental sector.

The present restrictive fiscal situation does not favor large-scale interventions; on the other hand, it may promote better targeting of the subsidiary system.

POSTSCRIPT

Because of the economic hardships during the completion of this paper in the summer of 2003, the government has revised some of the policies and subsidies relating to the housing sector, and many of the conditioned have toughened. It is not yet clear to what extent these restrictions will affect the system of diverse subsidies. It seems likely that mortgage loans subsidies will be reduced, and tax credit for such loans will be lowered. On the other hand, it does not seem presumptive that subsidies related to housing poor will be affected significantly, but the current poor economic situation of municipalities that carry out

the social tasks in Hungary will no doubt negatively affect their housing policies. The net growth of money spent on programs designed for housing poor seems

very unlikely during the next years but the refinement of the system could nevertheless be recommended and at least partly attainable.

NOTES

- ¹ This pertains to the difference between actual rents and market rents.
² In 1989, 1 USD = 60.06 HUF
³ Sources vary.

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TOO POOR TO MOVE, TOO POOR TO STAY

Maša Djordjević

Reducing Housing Poverty in
Serbian Urban Centers:
Analysis and Policy
Recommendations

A REPORT ON HOUSING IN THE CZECH REPUBLIC, HUNGARY AND SERBIA

Reducing Housing Poverty in Serbian Urban Centers: Analysis and Policy Recommendations

Maša Djordjević

1. INTRODUCTION

Since the early 1990s, the impoverishment of the Serbian population, coupled with the government's withdrawal from the business of providing and regulating housing, has resulted in increased housing poverty and the general deterioration of the housing stock. At the same time, the privatization of publicly-owned housing has led to an exceptionally skewed tenure structure of the housing stock in urban centers. As a result, Serbia has become a society of poor homeowners, with 98 percent of the housing stock privately-owned.

Though the poverty and disorder that has recently become characteristic of the urban structure of Serbian cities has been widely recognized, housing policy has not been a priority for the first reform government that came to power in 2000. The purpose of this paper is to describe and analyze housing poverty in the city of Belgrade, and to present policy options that can also be applied to smaller urban centers in Serbia.¹ Based on the analysis, the paper concludes that the development of an efficient housing market on the one hand, and the reduction of housing poverty on the other, should receive the full attention of central and local governments in Serbia.

In describing and analyzing the housing poor in Belgrade, housing poverty is defined as: 1) living in substandard housing; 2) living in overcrowded conditions; 3) a high housing expenditures-to-income ratio; 4) inability to make utility payments; and 5) homelessness. All current publicly available data sources and estimations have been used, including the unofficial preliminary 2002 national census data on the housing stock. Nevertheless, the lack of statistical definitions and data sources has imposed significant limitations on describing, understanding and analyzing of some aspects of housing poverty. In such circumstances, alternative methods for estimating the

size and the character of the housing problem are suggested, and indirect indicators used.

This paper begins by providing the background of the problem of housing poverty in Belgrade, focusing on: mass privatization of the housing stock and deregulation in the 1990s, and its consequences for the Belgrade housing sector. Characteristics of the Belgrade housing stock, drawn from the 2002 national census, are also presented. Then, several aspects of housing poverty in Belgrade are analyzed and discussed. This is followed by an assessment of and recommendations for policy solutions for reducing housing poverty in Belgrade and in other urban centers. Finally, the paper concludes with practical policy options, with the goal to facilitate policy implementation and the reduction of poverty in housing.

2. HOUSING POVERTY IN SERBIA: PROBLEM DESCRIPTION

2.1 Background: The Housing Sector Post-Socialism

2.1.1 *Privatization of the Public Housing Stock, Deregulation and the Lack of a National Housing Policy*

Apart from the introduction of a multi-party system in the 1990s, it is impossible to talk about substantial systemic reforms, from state socialism to a democratic and market-based system. There was, under Milošević, a proclaimed intention to privatize publicly-owned enterprises, but the process was very slow and the economic effects minor. A rare case of radical change was brought about, however, in the housing sector. The introduction of the 1990 Law on Housing Relations (*Zakon o stambenim odnosima*) and subsequently the

1992 Law on Housing (*Zakon o stanovanju*) formed a legal framework for the mass privatization of public housing units. From 1990 to the end of 1993, nearly 98 percent of the publicly-owned housing stock in Serbia (approximately 95 percent in Belgrade) was privatized (Petrović 2001; Petrović 2002).² Preliminary 2002 national census data supports this: there are 43,727 public rental units out of 2,513,804 inhabited flats in Serbia. The rest are housing units in private ownership (preliminary 2002 national census data in *Republički zavod za informatiku i statistiku*, October 2002). Consequently, Serbia became almost exclusively a nation of homeowners.³

No new housing legislation has been enacted since 1992. The 1992 housing law is the last and only legal act regulating the operation of market mechanisms in the housing sector. No new legal or financial principles, or other measures for regulating the new market-oriented system for providing housing, have been introduced; there has been no further developments toward a state housing policy. No financial or other incentives—such as cheap housing loans, mortgage-type of loans or housing allowances—have been created to stimulate either supply or demand.

The 1992 housing law granted municipal authorities responsibility for the housing needs of: 1) individuals who are unable to work, or who are members of households in which no one is able to work; 2) tenants in denationalized flats;⁴ 3) citizens living in “non-hygienic” conditions (slums); and 4) individuals who have been recognized for their special contribution to the social life of their communities—such as scientists, sportsmen, and artists. Municipalities, however, have been given *no* financial resources to solve the housing problems of these groups. The only flats that municipalities own are those very few that were not privatized. However, these flats are not available for distribution because they are mostly occupied by tenants who possess a life-long right to rent them. Thus, due to the near total privatization of the housing stock, municipalities do not have flats that can be distributed to the groups of people they are mandated to serve, let alone to other socially and economically deprived citizens in need of housing not listed in the 1992 law.

The 1990 and 1992 housing acts created the opportunity for the deregulation of public sector rents;

regardless, rent levels remained very low. According to data from 2000, household expenditures for rent in public housing were about 1.7 percent of the average household income in Serbia, and 2.5 percent in Belgrade (Petrović 2002; Belgrade Statistical Yearbook 2001). Unlike public rental housing, the 1992 law left private rental housing completely to market forces. As such, there is now no control over the level of rents in private rentals. Likewise, there is no definition of the contractual relationships and responsibilities of the actors involved, including the security of the rental relationship, responsibilities for the maintenance of the flat and the definition of the minimum standards that the flats in the private rental sector must meet to be rentable.

A severe economic crisis, along with negligible transformations in all policy sectors, the withdrawal of the state from providing housing, and the lack of a housing policy under Milosević, led to a considerable fall in overall housing investment and production as compared with the socialist period.⁵ According to the latest available data (Table 5), over 27,000 new housing units have been built since 1996 in the Belgrade metropolitan area.

The decline in legal housing construction, the state’s withdrawal from housing development, and the lack of development of new legal and institutional framework that would support new housing production of any type, provoked an escalation of alternative (and) individual strategies for satisfying housing needs. These individual strategies concerned primarily self-help and illegal construction. Illegal construction—constructing a building without obtaining the required permits—as a housing strategy was, in fact, inherited from the socialist regime, but experienced a dramatic increase in the 1990s. One estimate suggests that, since 1996,⁶ for every 100 legally constructed dwellings, there at least 80 illegally constructed dwellings in the Belgrade metropolitan area (Petrović 2002, 157).⁷

The introduction of a multi-party parliamentary system and the mass privatization of housing were the only substantial steps taken towards transforming the previous socialist regime to a democratic market based system. The current system has perpetuated, if not increased, the social inequalities in housing it inherited. The role that mass privatization played under Milosević was both practical and symbolic,

especially in light of the absence of regulatory measures that would help increase housing production and improve housing maintenance in the new market-based conditions. From the practical side, housing privatization served as a means of converting public/social capital into private capital. This conversion served mostly the members of the socialist political elite, but also put some property into the hands of the middle class. Housing privatization acted as a shock absorber for impoverished middle class households by giving them the impression that they were not among the “losers” in the transformation. The symbolic role of housing privatization, therefore, was to preserve social peace against the odds while enabling some market mechanisms to function—especially in the secondary housing market.

2.1.2 Characteristics of the Belgrade Housing Stock

According to the unofficial, preliminary 2002 national census data,⁸ about 97.2 percent of all inhabited flats for permanent habitation (*nastanjeni stanovi za stalno stanovanje*)⁹ are privately-owned in the metropolitan area of the City of Belgrade, and only about 2.8 percent are public sector rentals (Table 1). However, there is a sub-group of flats that are privately-owned but inhabited by other-than-owner users: a) those inhabited by private tenants; b) relatives of the owner’s family; and c) other types of users. All together, there are nearly 60,000 inhabited flats in this group, about 14 percent of all inhabited flats. In the absence of any official register of the private rental sector, it is reasonable to conclude that the flats under

Table 1

Tenure Structure of Inhabited Flats for Permanent Habitation in Belgrade Metropolitan Area, 2002¹⁰

	Number	Percent
Total	403,254	100.0
Private ownership	382,277	97.2
Inhabited by the owner	323,321	
Inhabited by private tenants (a)	23,404	
Inhabited by cousins (b)	30,763	
Inhabited by other users (c)	4,789	
Public sector	11,436	2.8

Source: Unofficial preliminary 2002 national census data (Republički zavod za informatiku i statistiku, 2002).

Table 2

Selection of Housing Indicators for Belgrade and Serbia, 2002¹¹

	Belgrade Metropolitan Area	Serbia ¹²
Average number of households per flat	0.93*	0.88
Average size of a flat [m ²]	58.9	
Square meter per person	21.7	25
Average household size	2.7*	2.9

* Calculated for the City of Belgrade.

Source: Calculations for Belgrade by author, the basis of unofficial preliminary national census 2002 data (Republički zavod za informatiku i statistiku 2002); for Serbia: UN Habitat (2003a).

sub-groups a) and c) are all private rentals (together, 7 percent of all inhabited flats). It is also reasonable to assume that a significant part of flats for which relatives of the owners' family are registered are also private rentals—that is, rented according to different unofficial arrangements between flat owners and users (be they registered in the census as tenants, cousins, or others).¹³ It follows that about 82 percent of all inhabited flats in the Belgrade metropolitan area are inhabited by their owners and their families, between 7 and 10 percent are private rentals,¹⁴ about 3 to 4 percent are inhabited by the children of the owner or other relatives who do not pay rent, and almost 3 percent are non-privatized public rentals.

Table 3 shows the structure of inhabited flats for permanent habitation according to the number of rooms in a flat in Belgrade metropolitan area. Two-room flats are the most common (about 42 percent), and one-room flats of both types cover 22 percent of all inhabited flats.

In terms of the average surface area per person, Table 4 reveals that about 32 percent of all inhabited flats have less than fifteen square meters per person, and even 13 percent have less than ten square meters per person. About 43 percent of inhabited flats have between 15–30 square meters per person, and around 25 percent of inhabited flats have more than 30 square meters per household member.

Table 3
Room-structure of Inhabited Flats in Belgrade Metropolitan Area, 2002

Total inhabited flats for permanent habitation	403,254
Individual rooms	1,312
One-room flats (without separate kitchen, with separate bathroom)	31,876
One-room flat (with separate kitchen and bathroom)	60,803
Two-room	170,446
Three-room	99,647
Four-room	27,181
Five and more rooms	10,279

Source: Unofficial preliminary 2002 national census data (Republički zavod za informatiku i statistiku 2002).

Table 4
Structure of Inhabited Flats for Permanent Habitation According to the Average Surface Area per Person in Belgrade Metropolitan Area, 2002

Surface Area	Number of Inhabited Flats
0–6 m ²	16,209
6.1–10 m ²	36,269
10.1–15 m ²	75,677
15.1–20 m ²	80,462
20.1–30 m ²	93,716
30.1–40 m ²	45,482
Over 40 m ²	55,439
Total inhabited flats for permanent habitation	403,254

Source: Unofficial preliminary 2002 national census data (Republički zavod za informatiku i statistiku 2002).

Table 5
Structure of All Flats for Permanent Habitation According to the Age of the Building
in Belgrade Metropolitan Area, 2002

Construction year	Number of Flats for Permanent Habitation
Before 1918	9,590
1919–1945	49,957
1946–1960	42,787
1961–1975	157,704
1976–1980	43,005
1981–1990	71,470
1991–1995	22,054
1996–2000	21,861
after 2000	5,949
Total	429,109

Source: Unofficial preliminary 2002 national census data (Republički zavod za informatiku i statistiku 2002).

Table 5 supplies data on the structure of all flats for permanent habitation (both inhabited and vacant) by the age of residential buildings. According to this data, the housing stock of Belgrade metropolitan area is not very old: only about 2.2 percent was built before 1918, and altogether 85 percent of all flats for permanent habitation were built since 1946.

The following section discusses the effects that the privatization process and the lack of a housing policy have had on the housing situation in Belgrade.

2.2 Housing Poverty in Its Current Environment: Post-2000 Developments

In the September and December elections of 2000, the political landscape in Serbia changed dramatically. Milošević and his coalition was ousted after being in power for thirteen years, and a diverse political block, the Democratic Opposition of Serbia, came to power. They inherited an impoverished population and a devastating situation in virtually all areas of political and economic life. Thus, real systemic economic and political transformation in Serbia started in 2001.

2.2.1 *Housing Poor in Belgrade: The Current Situation*

According to the already mentioned working definition of the housing poor, the following categories and related housing problems will be dealt with in detail below:

- those living in substandard housing (in the way it is statistically defined);
- those living in overcrowded conditions;
- households with high total housing expenditures-to-household income ratio;
- those who cannot pay for utilities and maintenance for the flat they live in; and
- the homeless.

2.2.1.1. Substandard Housing

The official statistical definition of a flat calls for caution in interpreting the official statistical data because a “flat” as a housing unit is not precisely defined. Any covered space with walls can be registered as a flat regardless of the type and quality of the building material, the existing facilities, and the available infrastructure (Petovar 1999, 133). As a consequence,

definitions and statistical records may hide the actual number of households in inadequate/substandard housing, and the number of homeless people.

According to the methodology of data collection for official Serbian statistics, two types of substandard living conditions can be observed: 1) substandard living conditions of those who do not live in the officially recognized housing stock, and 2) substandard housing as a part of the officially recognized housing stock (statistically called “flats”). The first type of substandard living conditions can be treated as a local version of homelessness, though officially not recognized as such. It covers those who live in so-called “other-than-flat” premises (*druge prostorije*), such as those living in office space (*nastanjene poslovne prostorije*) and those living in other premises “out of necessity” (*prostorije nastanjene iz nužde*). The available unpublished preliminary analysis of the 2002 national census data shows that in Belgrade metropolitan area, 6,668 “other-than flat” premises are used for housing, in addition to 433,697 housing units recognized as the housing stock. Just under 20,000 persons out of over one million who live in the Belgrade metropolitan area live in “other-than-flat” premises. In other words, approximately 1.7 percent of all inhabitants of the Belgrade metropolitan area live in spaces other than flats/housing units.¹⁵

The second type of substandard living conditions refers to the officially recognized housing stock. It can be only indirectly analyzed, category by category, since the statistical analysis does not refer to substandard housing units as an officially defined integrated category. According to the unpublished preliminary 2002 national census data, out of 429,109 flats for permanent living in Belgrade metropolitan area, 29,517 flats (about 6.9 percent) do *not* have at least one of the following: kitchen, bathroom or water closet (among these, 1,932 flats have none of these three). This indicates a significant need for upgrading existing flats.

In terms of infrastructural equipment, such as electricity, water supply, wastewater disposal, and central heating, there are only 320 out of 429,109 flats used for permanent habitation in the Belgrade metropolitan area that lack such equipment. An additional 1,369 flats have only electricity, without water supply, waste water disposal, and central heat-

ing. However, 173,034 flats (about 40 percent) have all installations, with the exception of central heating. Thus, the overall condition of infrastructural equipment is adequate.

Regarding the quality of the construction material of residential buildings, there are 396,127 units (98 percent) of 403,254 inhabited flats for permanent habitation made of solid material in Belgrade metropolitan area. In addition, considering the year of construction of residential buildings, only 8,691 inhabited housing units were built before 1918 (or 2.1 percent), and additional 45,215 units (11 percent) between 1919–1945.

According to a study on substandard living in Belgrade from 1995, about 15 percent of city dwellers were living in very poor housing conditions (Macura et al. 1995). It is clear that the categories of homeless and those living in substandard housing overlap significantly, though the latter do possess an official address (discussed below).

2.2.1.2 Overcrowding

Overcrowded housing conditions can be described using the following indicators: 1) number of square meters per person; 2) number of persons per room; and 3) number of households per housing unit.

Another serious caveat is necessary to note when dealing with the available statistical data. Official Serbian statistics are based upon the circumstances of individual households, and not of individual families. A household is defined as a consumption unit—in other words, all people living and spending their income together. There can, therefore, be one multiple families per housing unit; there can be one family or more than one family registered as a household. Moreover, a household can be single-person or consist of several generations living and spending together. In many situations, parents live in a flat with their adult children and their grandchildren; when interviewed during the national census, they reported that they spend all available resources together. But, it is nowhere indicated or recorded that there are actually two families living together. In short, if there is more than one family in a household, statistics do not officially recognize it. The official statistics record only the number of households in relation to the size and quality of the housing stock. The invisibility of

families *vis-à-vis* their housing conditions is a serious shortcoming of the available data on housing poor in Belgrade and Serbia.

According to unofficial preliminary 2002 national census data, there are 29,386 flats (about 8 percent) with two and more households out of 403,254 inhabited flats for permanent habitation. A shortage of flats was evident in 1991 (the time of the previous national census) as a consequence of the insufficient production of publicly-owned flats and the state's failure to enact regulations to encourage private housing construction during the socialist regime. This shortage led to overcrowding even in 1991, before the forced migration of people to Serbia, but the national census 2002 data show that the situation remains unchanged until today. In terms of the surface area of flats per person, in the Belgrade metropolitan area, approximately 13 percent of all inhabited flats have less than ten square meters per person and 32 percent of inhabited flats have less than fifteen square meters per person (Table 4). The situation was the same in 1991 (Petrović 2002, 82).

Regarding the relationship between the number of rooms in a flat and the number of household members, there is *critical overcrowding*¹⁶ in about 23 percent of inhabited flats in Belgrade metropolitan area (91,804 units), and *partial overcrowding*¹⁷ in an additional 19 percent of inhabited flats (76,166 units). Taken together, about 42 percent of inhabited flats have some degree of overcrowding.¹⁸

Yet another indicator of overcrowding can be seen from the opinions of household members concerning the quality of the housing units they occupy, as shown in a survey on living standard in Serbia in 2002 (Ministry for Social Affairs). In Belgrade, 58 percent of households were not satisfied with the flat they lived in for various reasons, but about 50 percent of these households complained that there was not enough space for them in the flat. This means that about 30 percent of Belgrade households felt they do not have enough space in the flat they occupy.

2.2.1.3 Housing Expenditures

Those whose total housing expenditures exceed a certain percentage of available income (average income per person in June 2003 was 11,346 dinars or about EUR 185) can also be included among the housing poor. This widely used indicator—total housing

expenditures-to-income ratio—has not, however, been in use in Serbia. It is not calculated and used as an indicator of housing consumption and poverty. There is also no agreed upon upper limit of housing expenditures, established by housing officials and experts in order to correspond with the poverty and consumption patterns for the country in general. The number of people who fall into this category can, therefore, only be estimated.

Taking into account that today more than 97 percent of all housing units are privately-owned, the overwhelming majority of the population does not pay rent. For those who live in flats they own, only costs for utilities count as housing expenditures. Utility costs cover about 11 percent of the total household income in Belgrade in 2000 (Table 6).¹⁹ For the small number of citizens in Belgrade who are tenants in public rental housing, the level of rents is still 6 percent. But, for those who rent a flat in the private rental sector, expenditures for rent are very high. Petrović (2002, 151–152) estimates that in the year 2000 it took 58 percent of average household income to rent a private rental unit in Belgrade.²⁰

In conclusion, for those living in their own flats, total housing expenditures have been low: between 10 to 12 percent of total average household income in 2000. For those renting in the public sector, total housing expenditures were about 13 percent of total average household income in 2000. For those who were renting privately-owned flats, total housing expenditures were the highest at about 70 percent of total average household income.²¹ However, one caveat should be noted here. The price of electricity has increased 3.5 times since 2001 (*Poverty Reduction Strategy Paper*, 2003), and especially for those households who use electricity for heating (flats without central heating) there has been a dramatic increase in electricity bills. This tendency will continue. The price of central heating has increased as well, but less dramatically. The only recent indicator of total housing costs (without considering expenditure sub-categories) comes from the *Survey on the Living Standard of the Population in Serbia* (SLSP). In 2002, in Belgrade, about 24 percent of household income were spent on housing expenditures, and 45 percent was spent just for food (Ministry for Social Affairs 2002).

Table 6
Housing Expenditures-to-Income Indicators for Belgrade

	1995	1998	1999	2000
Percent of public rent expenditures in the average total household income	2.6	3.2	3.0	2.5
Percent of private rent expenditures in the average total household income	no data	55.0	55.0	58.0
Percent of utility costs in the average total household expenditures	6.7	10.9	11.2	9.2

Sources: Belgrade Statistical Yearbook 2001; Petrović (2002, 152, Table 5.1).

2.2.1.4 Arrears in Paying Utility Costs

Almost no data is available on utility arrears, but it is widely believed that late payment of utility bills, sometimes for long periods, is a widespread problem in Belgrade. According to the most recent, and only, survey that covered housing consumption, about 17 percent of households in Belgrade have one or more utility bill unpaid. Average total arrears per household for those households who have at least one bill unpaid are about EUR 80 (*Ministry for Social Affairs* 2002).

It is reasonable to assume that the length of the delay depends on the type of utility bill, as there are penalties for not paying some bills but not for others utilities; for instance, electricity and phone services are cut if bills are not paid. According to the above mentioned survey on living conditions, the average number of months for which the household had arrears in paying electricity bills in 2002 was 2.5 months in Belgrade. Arrears in water consumption, building maintenance, and waste disposal are the most widespread likely because all these utilities come as a single bill that must be paid to a single public company. This is indirectly confirmed by the survey: the average number of months for which the household had arrears in paying this integrated bill was four months in Belgrade. There are, however, two possible reasons for arrears in utility payments: 1) sheer negligence; and 2) insufficient funds. It is difficult to determine who falls into which group, and only those in the latter can be counted as housing poor.²²

2.2.1.5 Homelessness

There is no legal definition and no official records kept of homeless people in Serbia. In the registers of the Belgrade Center for Social Care, there were

234 households registered as “in need of housing” in 1999. Even the Center, however, does not record systematically the persons and households in this category. The number mentioned above represents only those in need, who themselves turned to the Center for other reasons, and when registered were asked about their housing situation.²³ Thus, the number of 234 households is not a useful estimation of the number of homeless people.

As mentioned above, those statistically registered as living in “other-than-flat” conditions (i.e. sub-standard living conditions) are, in effect, homeless. In addition, considering the indicators of overcrowding, it can be argued that in situations in which more than one household occupies a flat, that one household out of two, two households out of three, three out of four, and so on, are homeless. It is worth repeating that this does not say anything about the number of families sharing a flat—that is, the number of families who might be “homeless with a place to live,” because the official statistics register only households, and one household can consist of more than one family. In Petrović’s words:

“It is very difficult to estimate the real number of homeless or inadequately housed people in Belgrade. If we use the broader definition of homelessness taking the households living in shared apartments or in spaces other than apartments (as the official statistics registers) then some rough estimation would indicate that 7.5 percent of all households are homeless or inadequately housed. This confirms that the problem is purely recognized, registered and treated in society in spite of its widespread existence.”²⁴ (Petrović 2000, 7)

Having in mind the large refugee population in Serbia (9 percent of total population, including

internally displaced persons), to make estimates on the number of homeless people is unquestionably difficult. About 30 percent of all refugees nationwide live in Belgrade.²⁵ The majority of these are accommodated in the flats/houses of their relatives and friends (74.2 percent). Some rent privately-owned flats (16.3 percent), and some live in collective accommodation for refugees (3.1 percent). Others have their own flats (3.4 percent), and the rest lack fixed accommodation altogether (4.8 percent) (Beogradski zavod za informatiku i statistiku 1998).²⁶ The sum of those who still live in collective accommodation and those without fixed accommodation clearly indicates the number of homeless in its narrowest sense in the refugee population.

2.2.2 *Governmental Action: What Are Authorities Doing to Reduce the Problems of the Housing Poor?*

Since 2001, little has been done in the housing sector in Serbia, especially regarding the problems of the housing poor. The reform of the housing sector is *not* a priority of the new Serbian government, either in terms of its legal reforms or in terms of practical governmental action to relieve existing housing problems. The country that the new democratic coalition government inherited was in a desperate need of reforms in many areas, and some immediate actions have had to be taken. It is therefore understandable that the housing sector was destined to wait for a new comprehensive policy; if any improvements in housing conditions are expected even in the middle-term, comprehensive legal reforms must start very soon. In this section, the limited steps taken by the central (Serbian) government and by the City of Belgrade will be described and discussed.

2.2.2.1 Central Government

Some action was taken at the central government level in 2002 during the preparation of the *National Housing Policy*. The Ministry for Urban Planning and Construction is responsible developing this policy. The process officially started in April 2002, when the Ministry established an eight-person team, consisting of experts in urban economics, urban planning, urban sociology, real estate and finance. In December

2002, the Ministry established a second team—the Social and Refugee Related Housing Secretariat—that consists of four experts. Both the expert team and the Secretariat were expected to provide input for the Policy, initially announced to be ready by the end of July 2003.

The *National Housing Policy* is to be a strategic document. The Social and Refugee Related Housing Secretariat's role in the process of preparing the Policy is to relate the housing policy for refugees (developed in the *Program of implementation of the national strategy for solving the situation of refugees*,²⁷ accepted by the government in May 2002) to the housing problems of the socially and economically deprived in the general population. The Secretariat is then expected to incorporate the refugee housing policy within the National Policy. The Secretariat was also granted the responsibility to give recommendations for future policy options and measures to be taken to develop social housing and affordable market-based housing for both refugees and domestic low-income population (*Action Plan of the Social and Refugee Related Housing Secretariat* 2002).

As a part of the work on the *National Housing Policy*, in September 2002, the Serbian government announced the future establishment²⁸ of a national corporation for giving guarantees for housing loans with start-up capital of EUR 15–20 million from the Serbian budget. This institution should help with the initiation and development of the mortgage lending system in Serbia by giving guarantees to commercial banks for giving loans to individual citizens (Serbian Government, September 2002).

Another important strategic document being prepared by the central government is the *Poverty Reduction Strategy*. This project (Poverty Reduction Strategy Project, PRSP), supported by UNDP and the World Bank, was in preparation since May 2002. The government approved the Strategy in October 2003.

In the *Initial Framework of the Poverty Reduction Strategy in Serbia* (May 2002), the housing aspect of poverty and poverty reduction was mentioned only to say that the national housing policy is in preparation, and that providing housing solutions for people in poverty will be an important element.²⁹ However, some measures for fighting housing poverty were finally included in the final version of the *Poverty*

Reduction Strategy (Serbian Government 2003).³⁰ The three main types of recommended solutions are:

- 1) Development of social housing targeted at those social groups that cannot buy or rent a flat in the housing market (such as the most socially vulnerable), including: a) the development of social rental housing units that will not be privatized under any circumstances; and b) the introduction of a housing allowance system both for social rental housing and private rental housing.
- 2) Support for affordable rental housing development through: a) offering land for affordable rental housing construction; b) revising urban planning and construction standards to support the construction of rental housing; and c) considering tax exemptions for developers of such housing.
- 3) Improving spontaneously developed settlements (slums or non-hygienic areas, settlements with illegally built housing, and so on) either by moving people to better housing conditions, by introducing infrastructure to those settlements, or by settlement regeneration.

2.2.2.2 Belgrade Authorities

Apart from the national policy that is now in the making—which should set up the legal and institutional framework for providing housing in the market-based economy in the future—local authorities are responsible for developing local housing policies. The new Law on Local Government, approved in February 2002, confirms the decentralization of the housing policy. The only direct responsibility of municipalities for providing housing stems from the 1992 Law on Housing. Municipalities are responsible for those socially deprived citizens in need for housing who are: unable to work, with all other household members unemployed; sitting tenants in denationalized flats (in order to return those flats to their former owners); people living in non-hygienic buildings and flats; soldiers; and others disabled during the wars of the 1990s.

Belgrade city authorities announced in June 2002 that they are starting a program of non-profit housing construction for employees in the municipal administration, local public utility companies, and all

other institutions that serve the city. Included are those employed in courts, education and health centers, artists, distinguished sportsmen, young married couples, the disabled, and so on who lack their own housing (Belgrade City Assembly, June 2002). It was announced that 1,100 new flats would be built for this purpose in 2003, that the construction will be financed from the 2002 and 2003 City budgets and bank credits.³¹ The allocation criteria were defined in February 2003. The City will sell on credit 1,000 flats to selected applicants from the aforementioned categories in need of housing (repayment period, 20 years; participation minimum, 20 percent; EUR 750 per square meter)³² and the remaining 100 flats will be rented to socially deprived people without their own housing. Applicants are to be ranked by local authorities, separately for both categories of flats (Belgrade City Assembly 2003). The applicants for newly built flats for sale must:³³ lack ownership of a flat; be permanently employed; and able to pay a monthly interest rate. Socially deprived people eligible to apply are those who already receive social help, and whose total household income is below 80 percent of the average income per employee in Serbia. The rental period for social rental units will be two years, with the possibility of the renewal of the contract under the same conditions until the applicant loses the right to receive social assistance, and/or the applicant or a member of his household find another housing solution. This project of the City of Belgrade is the first public construction project in years apart from the construction of solidarity flats (see note 14). Even more important is that this is the first attempt to build social rental housing units, even in such a small number.³⁴

An important change in the system for providing housing is expected to come out of the *General Urban Plan of Belgrade until 2021*. The City Assembly approved this long-awaited urban planning document for Belgrade in September 2003. It enables a change in the spatial positioning of new housing. The new plan represents a withdrawal from prescribing zones for mass housing construction (typical for a socialist-type housing provision). Instead, zoning will be oriented towards urban renewal of the existing housing stock, and towards filling in the existing housing zones with new smaller housing projects. The new *General Urban Plan* (Belgrade Urban Planning

Institute 2003) suggests three basic types of housing zones: market-led housing; social housing; and affordable housing. Social housing, as a new element in spatial planning regulations, will be allowed both within general housing zones³⁵ and on separate locations, selected only as zones for social housing (about six to seven locations of this type on the territory of Belgrade have been suggested) (The City of Belgrade Beoinfo February 2003).

Municipal authorities in Belgrade³⁶ have committees responsible for some housing issues. They deal mostly with: 1) municipal flats and their tenants; 2) illegal tenants in the municipal flats, and possibilities of providing legal status to some illegal tenants; 3) filling vacant municipal flats (assuming there are some) with citizens in the greatest need for housing in the municipality. The flats they can offer are reportedly in very bad condition, very small and sometimes with inadequate facilities. The criteria these committees and the municipal executive bodies use in deciding on applications are not clear, and the decisions are prone to nepotism and clientelism. Municipal authorities are, it seems, still not considering a more proactive approach to providing housing for the very poor, whose housing needs they are legally required to address. There appears to be no attempt to increase the stock of municipal housing for the poor.

2.2.2.3 Additional Remarks

According to the preliminary results of the 2002 national census, the number of flats is in statistical balance with the number of households in Belgrade.³⁷ However, according to a recent estimate there is a deficit³⁸ of about 70,000 flats in Belgrade.

Looking at housing affordability, on the other hand, shows that it is impossible for households with an average income to buy a flat that would satisfy their housing needs. According to the house price-to-household income ratio for 1994 and 1997 it took about 21 times the average household income to buy a legally built flat, and 24 times in 2000. If the median price for *illegally* constructed flats is considered then the situation improves somewhat. It took approximately nine times the average household income to buy an illegally built flat for each of the three years (Petrović 2001, 223; Petrović 2002, 152).

This shows that borrowing from a bank to buy a flat is not an option for the majority of those in need of housing. Only recently have private banks started offering commercial loans for this purpose. In the 1990s there were no loans for housing offered to the general public. According to some calculations, a person who wants to take a commercial loan should have the salary of a minister in the Serbian government, which means that existing commercial housing loans are far from an affordable option for an average family.

3. POLICY OPTIONS: WHAT CAN BE DONE TO REDUCE HOUSING POVERTY?

3.1 Framework of Analysis

This section presents policy options for solving the problems of housing poor in Belgrade and other Serbian urban centers. The choice of possible policy solutions is made on the basis of the evaluation of the present state of macro-economic, legal and other systemic reforms, and the overall difficult political, economic and social situation in Serbia at present. It is important to keep in mind that Serbia is still in the early phases of transition, and that housing policy is not a priority of the current government. The capacity and willingness of the central and local governments to tackle the issue of housing in general and of housing poor in particular, are heavily constrained by the budget and the lack of financial means. In addition, large segments of the Serbian population are poor, and thus incapable of dealing with their housing problems independently.

The manner in which policy options are presented and recommended solutions are framed is based upon an awareness that there are serious constraints on the government's ability to address comprehensively housing policy and social policy in the housing sector. Nevertheless, because the housing sector is one of the most complex policy sectors, where policy program outcomes are not easily predicted and can often be evaluated only over the long term, it is crucial to start introducing as soon as possible a comprehensive policy framework to facilitate the development of a market-based housing sector as soon as possible.

A national housing policy framework needs to include a choice of strategic policy solutions for tackling poverty in housing. These choices should be made immediately. In the last part of this section, policy solutions for particular categories of the housing poor will be discussed in more detail.

3.2 Evaluation of Policy Alternatives

What can the government do to ease or solve the problems of the housing poor in a poverty-ridden society of almost complete homeownership? There are three main types of policy solutions for the Serbian government to consider:

- supporting the development of the rental sector—both public and private—contrary to the currently expressed preferences of both citizens and authorities for homeownership as *the* solution for housing problems;
- supporting new homeownership by developing the housing finance sector instruments, primarily mortgage loans; and
- introducing a well targeted and transparent housing allowance system for poor homeowners and tenants.

3.2.1 *Supporting Development of the Rental Sector*

The tenure structure of the Serbian housing stock, with a special emphasis on its capital city, is atypical and potentially disadvantageous for a transition country, and also does not resemble the tenure structure of wealthy and developed countries. As a result of extensive housing privatization in the first half of the 1990s, only an insignificant public rental sector remains. Homeownership cannot be the only housing choice in a poor society that endeavors to build a market economy. Among the disadvantages of homeownership are: the general lack of affordability, particularly affecting the poor; inflexibility in terms of owner relocation (which hinders labor mobility); and the lack of availability to those who have temporary and short term housing needs (single and divorced people, young couples, young people leaving home, people moving to another city, and so on).

Contrary to currently expressed preferences for more home ownership and against developing the rental sector, both the public and private rental sectors need to be fashioned to accommodate the groups mentioned above. There are three general policy options for accomplishing this objective: 1) state support for the development of the new public rental sector only; 2) state support for the development of the private rental sector; and 3) state support for the development of both the public and private rental sectors. Within the public rental sector, the state has the option of developing only social housing (i.e. public rental housing only for socially marginalized and low-income groups), or a diversified range of rental housing types, for both low- and middle-income groups.

For the reasons expressed below, the state should support the development of both the public and private rental sectors, with development of social housing first, followed by the development of rental housing for middle income families if the hoped-for economic development takes place and financial conditions permit.

3.2.1.1 New Public Rental Housing: Social Housing

It is crucial to start developing new public housing for marginalized and low-income groups, namely social housing. Social housing did not exist under state socialism, because public (“social”) housing was ideally meant to be the best housing solution for all citizens, and not intended particularly for the housing poor. At the European level, developed countries (except for Greece, Spain, and Portugal, with social rentals less 4 percent of the housing stock) have a substantial share of public housing in their tenure structure: Italy, 7 percent; Ireland, 11 percent; Germany, about 20 percent; France 17 percent; Denmark, 24 percent; Britain, 26 percent; Sweden, 36 percent; and the Netherlands, 40 percent of the housing stock (Premius 2001; Gibb 2001). The recommendation of the Council of Europe is that the share of public rental housing in the total housing stock of a country should be from 15 to 20 percent. Social housing for low-income people comprises the majority of publicly-rented dwellings in EU countries.

New rental social housing can be acquired in different ways: through public construction; through

private construction by non-profit organizations; and by private developers. Private developers are given incentives such as public land obtained at no or reduced cost and tax exemptions, through adaptation of other types of structures, or through redevelopment of sub-standard dwellings bought back into public ownership.

New public housing requires a new institutional setting for the management of dwellings and buildings. Both government and private non-profit organizations can be involved in the social housing management structure. One of the most common types of managers of public housing in Europe are non-profit housing associations. New legal and regulatory frameworks will be needed to permit private, non-profit associations to operate all or part of the public housing stock. This can be regulated such that a public agency or municipal authorities prescribe standards and then supervise the work of housing associations, which will be responsible for the actual management and maintenance of premises.

The selection criteria for granting access to social housing should be elaborated fully, and their application transparent (which is not always the case with the distribution of the existing limited municipal stock). The profiles of low-income and marginalized people who are eligible for the new social housing should be well defined and targeted, with initial means testing and periodic household eligibility reviews. The duration of the rental contract should be limited, with renewals only as long as the individual household remains eligible. This is a common practice in the management of public rental housing in Western European and North American countries.

Setting rent levels should be closely related to the well-targeted, means-tested and transparent selection process. Rents in the existing public rental sector (municipal housing after privatization) are set very low as a legacy of the socialist housing policy. This must not happen in new social housing, which should clearly be targeted at *only* the low income and housing poor. Rent levels should be based upon the income and economic assets of the tenant. Preferably, the rent should be arranged as a cost rent, and subsidized for those who cannot afford it. Different degrees or levels of subsidization should reflect the profile of a household. This should be a part of the future housing allowance system; as such, it will be discussed in more detail later in the text.

3.2.1.2 Private Rental Housing

With almost complete homeownership of the housing stock in Serbia and the city of Belgrade, the private-rental sector can be the first and financially the easiest to develop as a way to solve the housing problems of some groups of the housing poor. At present, the private rental sector is completely unregulated, there are no reliable data on the size and quality of the stock—rather, only very rough estimations. Landlords do not want to register (or even report for the purpose of the national census) dwellings as private rentals, fearing the tax they would be required to pay. Those who have tried to rent a flat or have been renting for years report that it is very difficult to find decent-quality, well-maintained affordable rental dwellings. The relationship between tenants and private sector landlords is governed entirely by personalities, because there is no obligation to sign a contract, and no mechanism to secure legal enforceability of contract.

This situation should change. The state should take on an enabling role and create the legal framework that will facilitate development of the private rental sector. It is cheaper and faster to develop a functioning private-rental market and to give private entrepreneurs the opportunity to begin solving the rental housing problem, than to develop a new public rental sector that will satisfy only a portion of the needs of the housing poor. It is a question of the financial means and the time needed to develop any of the policy solutions suggested here.

After the private rental sector is regulated in a way that provides contract security that is fair for both parties, incentives should be given to individual households to offer existing flats for rent. This will require some minimum quality and maintenance standards. Finally, the state should support the supply side of the rental sector through incentives to developers and potential private landlords to build new, private, multi-family housing and renovate existing structures to be used as rental housing (offering public land for free or with discount, tax exemptions, and so on). The development of the role of private landlords as important actors in the housing market should be welcomed and supported. Once there are more private rental units available, private rent levels will recede as well. It will then be more affordable to rent a flat than it is at present (a rough estimation is

that more than 50 percent of an average household income should be given for a private rent). Once there is a legal, regulatory framework for the private rental market, it will be possible to consider the role of private landlords in providing rental housing for low- to middle-income people, such as social housing.

3.2.2 *Developing Housing Finance Instruments: Mortgage Loans*

Developing housing finance instruments for a market-driven housing sector is one of the core components of a national housing policy, which affects the affordability and availability of housing for the poor. Establishing a housing finance system affects all aspects of housing supply and demand.

Unlike the development of the rental housing sector, development of housing finance instruments serves primarily to increase homeownership. In the short- and middle-terms, only a very limited number of those who need a (separate) housing unit for their family will be able to acquire one through the mortgage loan system, due to the generally low income levels of the population. Nevertheless, it is crucial to create a system of housing finance instruments, primarily mortgage loans, to enable those who can afford it to plan their individual housing strategy along these lines. Likewise, it is necessary to improve the system of housing finance with a hope that it can become a viable option for the majority of the population. It is therefore important to fashion a general policy framework for development of an affordable ownership housing market as a “policy solution in waiting” for the housing poor.

Special attention should be paid to developing mortgage loan schemes for low- and middle-income inhabitants, which includes: giving state/municipal guarantees for low-income mortgages and reverse mortgages for older homeowners; supporting housing-related savings; providing lump-sum grants and targeted interest rate subsidies; and so on. (see Hoek-Smit and Diamond 2003). This should be a priority for the government once the mortgage finance system is established; without a conscious effort, the mortgage finance market will not address the housing needs of low and middle-income families in Serbia. The government should be aware, however, of the danger that better-off households usually enjoy most

of the benefits directed at improving the housing conditions of the poor.

A mortgage financing system should be diversified to provide the financial means not only for construction and purchase of newly built dwellings, but also for the purchase of flats and other dwellings in the secondary market, for home renovation, and for renovation of condominium buildings as well.

3.2.3 *Introducing a Housing Allowance System*

The mass privatization process during the early 1990s brought about a great number of income-poor homeowners. Even before the actual start of the reform process after the change of power in 2000, arrears in utility bills were widespread. Reforms have already brought about some increase in user charges—most dramatically in the case of electricity consumption—but significant growth in the real cost of services is expected in the near future. Although the housing expenditure-to-income ratio is not officially used in Serbia, as previously mentioned, estimates show that the utilities-to-income-ratio for Belgrade was not high at the beginning of the reform process (see Table 6, above). Even before the recent rise in utility prices, however, homeowners were not able to pay utility bills because of insufficient household income. The situation will only worsen in the near future as the reforms take effect and cost recovery user charges are gradually introduced in housing related public services.

As far as the existing public and private rental sectors are concerned, the rent in the remaining municipal rental sector is still very low, but it is possible that in some time, it will increase. If authorities decide to start developing social rental housing with the rents approximating cost rent, marginalized and low-income households will be eligible, but incapable of paying the full cost rent. Private sector rents are very high compared to the total average household income, and are thus generally unaffordable. Total housing expenditures-to-income ratios for those renting a private flat are extremely high. This option can be considered *affordable* only for higher-income groups. In all these cases—poor homeowners, as well as public and private sector renters—a diversified housing allowance system is needed.

In addition to regular housing consumption costs, the maintenance and renovation of individual private

dwellings, together with the inherited neglect for the maintenance of multi-unit buildings, are the issues to be addressed soon after many years and decades of policy disregard. If regular building maintenance and renovation costs are realistically estimated and included in the total housing expenditures, it will certainly lead to a dramatic increase in the total housing expenditures-to-income ratio. In that case, a significant majority of homeowners, not only the poor, will not be able to pay for housing related bills.

A well targeted and transparent housing allowance system is needed to act as a social safety net in the housing sector. It should include: subsidies for some utility expenditures; private rent subsidies (and in the future, public rent subsidies if public rent reaches the level of the cost rent); housing maintenance subsidies for homeowners in condominium buildings (once a law on condominiums is introduced, and all common spaces in multi-family buildings privatized); and one-off multi-unit buildings renovation subsidies.

3.3 Policy Options by Housing Poor Category

The following section turns, at last, to each of the groups previously defined as belonging to the housing poor in Belgrade and other Serbian urban centers, and considers how the policy solutions recommended above correspond to their housing problems.

3.3.1 *Substandard Housing*

Usually only very poor people live in substandard housing; in general, they should be offered support in upgrading physical living conditions through renovation. Certainly, not all premises used for housing should be upgraded. It is preferable that those living in the worst quality units be registered as homeless, or in great need of public housing, and then accommodated in the new public housing units discussed in the previous section.

The solutions for those living in private substandard housing should differ from those living in public housing of very low quality. In the case of the latter, the state and municipalities are directly responsible for maintenance, and they should undertake their responsibility through special programs. In the case

of the private substandard housing, there should be a private loan system for upgrading projects; as well, a comprehensive subsidy scheme should be considered for those substandard dwellings where some small upgrading would lead to a long-term housing solution for the household in question. Ultimately, there will be a limited number of private premises in very unhygienic and unhealthy conditions, that would be better-off demolished or used for other purposes. Municipal authorities should consider either repurchasing these private premises (that should not have been privatized in the first place) or giving some sort of compensation, and then consider the inhabitants households eligible for new public housing.

3.3.2 *Overcrowded Conditions*

“Overcrowding” must be defined comprehensively, such that all relevant aspects in urban areas are covered (and not only “more than one household living together”). This will help the screening of the problem, and encourage reliable data collection. Since it can be assumed that people living in overcrowded conditions belong to different income and age groups, the scenarios for solving their current and changing housing needs will vary a great deal. For those who are low-income, new public-rental housing will present a relatively permanent solution (in the case of two or more separate, low-income households living together), or a rather temporary solution until the family can afford a mortgage loan to buy a flat or inherit property (such as young couples). Others with average incomes could rent a private flat in a developed rental market, receiving a private rent subsidy if necessary; later, when their employment and financial situation allows, they might purchase a dwelling with the private mortgage loan scheme that suits them best. Still others will remain living with relatives, and then look for a mortgage scheme to buy a flat of their own.

3.3.3 *Increasing Housing Expenditures and Arrears in Utility Payments*

A well developed, well targeted and transparent housing allowance system is the key instrument in addressing increasing housing expenditures. A social safety net for housing should be designed and introduced through a system of subsidies, aimed at paying

utility bills, private rents, and housing maintenance costs for the most deprived categories of the housing poor. Measures for rationalizing consumption of individual households should be also introduced. The introduction of cost recovery user charges should be gradual and well planned, so that individual households are provided with both the time and means to adjust their housing consumption according to their needs and financial resources. A housing allowance system should assist the very poor, but also help the adjustment process of wider sections of housing consumers. This means that some subsidy programs will be only temporal, while others will need to be designed as more permanent instruments of social policy for income poor households.

3.3.4 Homelessness

Homelessness must first be legally defined. This category should include both “rough sleepers,” as well as those having a roof over their head but living in extremely unhealthy conditions or premises unsuitable for living. The clarity of the definition should be followed by a systematic attempt to register homeless people. A clear definition and registration of different categories of the housing poor will likely reveal that there are more homeless than visible on the streets of Belgrade. As such, there will be an increase in homelessness once the reform process gains force. Then, the registration procedure should serve to help detect the unfolding process. The problem of homelessness is a complex issue, and only partly a problem of the housing sector. Depending on the definition and the estimation of the size and needs of different categories of homeless people (permanent or temporary, families, children, single adults, and so on) in Belgrade, one policy solution could be the provision of accommodation in special shelters; this is the case in many countries with comprehensive homeless plans. Transforming some existing premises into well run homeless shelters is a possible short-term solution for accommodating families in acutely substandard conditions until new premises for new public housing, as suggested above, are provided.

4. CONCLUSIONS AND RECOMMENDATIONS

Serbia is a poor society with almost complete homeownership. The political regime of the 1990s left in its wake a poor state, run-down economy, and a overwhelmingly impoverished society. The mass privatization process of the first half of the 1990s produced an exceptionally skewed housing tenure structure in Belgrade and other urban centers in Serbia, in which nearly 98 percent of the housing stock is in private ownership.

Even before the bloody disintegration of the former Yugoslavia, it was a commonly understood that urban housing problems were widespread. The socialist regime did not solve these problems, and during the period of extreme political, economic and overall social crisis in the 1990s, housing problems significantly worsened. These factors directly affected the size and characteristics of the social group known as the housing poor after the change of power in 2002.

In this attempt to describe and analyze the housing poor in the capital city of Belgrade, poverty in housing has been defined as: 1) living in substandard housing; 2) living in overcrowded conditions; 3) a high housing expenditures-to-income ratio; 4) an inability to make utility payments; and 5) homelessness. The analysis of existing data reveals a generally the lack of data sources needed to engage effectively with some of these aspects; as well as a dearth of reliable data even for those aspects that have been publicly and officially recognized as housing problems.

Substandard housing is used in Serbian statistics, it is difficult to know precisely what is actually included in the term, and why. Consequently, it is difficult to define the number of people who constitute housing poor in this sense. The available estimations suggest that between 7 and 15 percent of Belgrade city dwellers live in some sort of substandard conditions.

Overcrowding of dwellings has long been identified as a significant housing problem in Belgrade, especially in flats in multi-unit buildings. However, no reliable data exist due to the way this problem has been treated statistically. Existing estimates are rough: from 32 percent of all housing units (if counting meters squared per person) to 42 percent (if the

relationship between the number of rooms and number of household members is considered) had some degree of overcrowding in 2002 in Belgrade.

The share of *housing expenditures in the total household income* has been measured to some extent in Serbia, but the indicator widely used internationally—housing expenditures-to-income ratio—has not figured into statistics or the policymaking. There has been little consideration of, and no agreement on, the threshold at which the share of total housing expenditures in the household income would be considered an unbearable burden for a household. In the 1990s, the costs of utilities in general and of regulated rent in the remaining public housing were rather low: estimates are, respectively, 11 percent and 2.5 percent. There have been no official data on the cost of rent in the unregulated private rental sector, but rough estimations show that private rent is a sizeable burden on an average household income—about 58 percent of the average total household income in 2000.

However, low user charges for housing utilities has already started to increase, and will continue to increase as an unavoidable part of economic reforms that are already underway. Electricity costs, which grew significantly in 2002, were the first to become a serious burden, especially for those families who do not have a central heating system.

This directly impacts those members of the housing poor who are *unable to make utility payments*. Other than a widely held belief that utility arrears are widespread, there is no available data on how many people have not been paying various utility bills, and for how long.

As for the number, profiles and problems of the *homeless*, there is no legal definition, no public awareness and no public records. It is impossible to make a realistic estimate.

4.1 Policy Recommendations

This paper identifies and recommends three main types of policy solutions for the Serbian government to consider:

- 1) *Supporting the development of the rental sector—both public and private*. Contrary to currently expressed preferences of both citizens and authorities for homeownership as *the* solution for housing problems, both the public and private rental sectors must developed. Developing both sectors opens the door to affordable housing solutions for the poor, increasing labor mobility, and offering more flexible choice for those who have temporary and short-term housing needs.
- 2) *Introducing and developing housing finance instruments, and primarily mortgage loans*. This serves to increase homeownership, but could also provide the financial means for the purchase of dwellings on the secondary market, for home renovation, and for renovation of condominium buildings. Special attention should be paid to developing mortgage loan schemes for low- and middle-income people.
- 3) *Introducing a housing allowance system*. A well targeted and transparent housing allowance system would help poor homeowners and tenants, both in the private and public rentals. This would also represent the introduction of a social safety net in the housing sector.

The current constraints on central and local governments attempting to implement any housing policy solutions are numerous. They primarily financial, but the current political situation and the questionable capacity of both levels of government to carry out the overwhelming task of putting some order and hope into the housing sector are also of serious concern. Certainly, “doing nothing” is hardly a viable option. Housing solutions start operating and can be evaluated only over the long-term, so it is recommendable to start as soon as possible. It takes time and effort for a housing market to start working efficiently; this first requires an enabling policy framework to be put in place. For instance, there are a number of legal constraints (such as countrywide, accurate and complete property cadaster records, mortgage law that would enable mortgage loans, new law on the maintenance of condominiums, and so on) that must be dealt with immediately. An immediate response will enable the market to provide housing solutions, at least for those families that have some means to satisfy their housing needs.

4.2 Practical Policy Options

- *Collect data on all aspects of poverty in housing.* The government should revise the usefulness of the existing methodology of data collection and analysis on the state of the housing sector. Census data are not enough. Yearly surveys of the housing situation—with a special emphasis on defining and monitoring housing poverty—should be introduced. The profiles of collected data should be improved and expanded in order to correspond more closely to the information on housing poverty needed for effective policymaking.
- *Define overcrowded housing conditions, different degrees of substandard quality of housing, homelessness, and a “housing poverty line”* in terms of an acceptable threshold for total housing expenditures-to-income ratio. Adapt existing and introduce new methodology for monitoring these phenomena.
- *Think strategically about middle- and long-term effects of possible policy solutions.* Financial constraints, current and expected, are very serious, but much can be done in building up an enabling regulatory framework for an efficient housing market without huge public investment. Prioritize recommended policy solutions according to their potential to alleviate accumulated poverty in housing and to produce positive effects on the working of the housing market (and not only according to the shortage of financial resources). For instance, facilitating the development of private rental sector costs far less than building social housing, although the state will need to invest in some rental units for marginal and low-income people.
- *Provide incentives for private landlords and developers to invest in affordable private rental housing.* This could include offering public land with a discount or for free, or developing tax exemptions.
- *Estimate the existing need for social housing in urban centers,* and decide what and how much needs to be provided first. Introduce national regulations for developing new social housing.
- *Enable the establishment of non-profit housing associations* to provide and/or manage new social housing. Establish clear allocation criteria and make the allocation process transparent.
- *Facilitate housing mobility.* Adopt measures that do not prevent or otherwise limit countrywide mobility of tenants in public housing, new social housing and those who will receive housing allowances in the future. State-initiated housing poverty reduction programs should support labor mobility: Housing poor and income-poor people should be given the opportunity both to go where the jobs are and to get decent housing.
- *Provide special shelters for homeless people.* Depending on the outcome of a future analysis of the number, categories and different needs of homeless people and families, provide shelters that can serve as short-term housing solutions. Involve non-governmental organizations in providing/managing care for the homeless. Homelessness will rise in Belgrade and other urban centers as necessary economic and social reforms are underway. Prepare measures to deal with it now.
- *Well-targeted and transparent housing poverty reduction programs are crucial for the success of the policy.* Housing production programs in Serbia—at the national and municipal level, under state socialist and until today—have been associated in the public mind with corruption and nepotism. This difficult legacy, together with the concern for the effectiveness and efficiency of future housing poverty reduction programs, requires that program implementation be fully transparent and well-targeted (so that only those who need support actually receive it), and that allocation criteria (for renting public flats, different allowance schemes, and so on) be clear and implementable.

NOTES

- ¹ I wish to express my gratitude to the members of the LGI Fellowship team working on the housing poverty in the major urban centers in Central Eastern Europe, and especially James Fearn for his invaluable critical comments and suggestions on previous drafts of this paper. I also want to thank Mina Petrović (University of Belgrade) and József Hegedűs (Metropolitan Research Institute, Budapest) for generously sharing their insights with me in preparing this policy paper.
- ² Except in the largest cities, the amount of privately-owned housing in the socialist times substantially exceeded the amount of public housing. There was no cooperative housing stock. At the end of the socialist period, the overall housing stock did not contain a large proportion of publicly-owned flats, as would be expected for a socialist regime. Overall figures for Serbia and Montenegro show that only about 22 percent of the total housing stock in 1991 was publicly-owned. Even in urban centers (except for Belgrade), the number of publicly-owned flats nowhere near as high as the number of private housing units. In Belgrade, publicly-owned flats were 53 percent of the housing stock. In other larger urban centers in Serbia and Montenegro, this percentage was 39.2 percent in Novi Sad, 40 percent in Priština, 41.9 percent in Podgorica, and 31.4 percent in Niš (Petrović 2002, 79). The remaining housing units were privately-owned. It can be said, therefore, that the former Yugoslav socialist regime was a society with a public housing ideology, that in practice favored private ownership in the housing sector (Mandić 1990, 263).
- ³ All the data for Serbia in the text below refer to the territory of Serbia without Kosovo.
- ⁴ Tenants in denationalized flats have the right to stay in the flat until the owner or municipal authorities find another appropriate publicly-owned flat for them to rent.
- ⁵ The only publicly-financed housing production in the 1990s was directed towards so-called “solidarity flats.” According to the 1992 Law on Housing, all enterprises and governmental institutions were obliged to pay a rate of 1.3 percent of the total monthly income of their employees to the Fund for solidarity housing construction. The objective of this fund was to build and distribute new flats to employees with insufficient income solve their housing needs by their own. The Law prescribed that an enterprise should pay fifteen percent of the construction costs of a flat if they wish to take it over for an applicant who is their employee (in addition to the above mentioned rate they have to deduct regularly). As such, a very small number of enterprises could afford a solidarity flat and help an employee in the greatest need. This suggests that the idea behind the provision of solidarity flats, as a remnant of the socialist thinking that enterprises should be responsible for providing housing for employees, was turned rather upside down in reality: only the richest enterprises obtained flats for their employees, although everybody was paying the regular rate into the Fund. The Law also enabled the privatization of solidarity flats with up to four times lower selling prices than market prices, so its construction was not tending towards improving the public rental housing stock (Petrović 2002, 144).
- In June 2001, the legal framework concerning solidarity housing changed. Direct responsibility for solidarity flats was transferred from enterprises to local authorities. Local authorities are to determine the amount of the tax on the total wage fund (up to 3.5 percent) of enterprises on its territory. Then, 0.3-1.0 percent of financial means accumulated in this way in the municipality are to be invested into solidarity housing construction. Still, only those enterprises which pay additional amount of the market price of the flats can give a solidarity flat to selected a employee (UN Habitat 2003b; Petrović 2003).
- ⁶ It is important to note that the Serbian statistics do *not* register illegal housing construction, but *exclusively* legal construction. The data on illegal construction can be collected on the level of municipalities, with a changing methodology of what is actually registered and what is later estimated. That is the reason why all numbers on illegal construction in Belgrade can only be estimations.
- ⁷ The majority of illegal housing consists of individual detached houses. However, since the mid-1990s, the majority of legally built housing premises were also individual, detached houses. This partly explains the size of illegal construction. Namely, the former *General Urban Plan for Belgrade* was draw-up in 1972, partly changed in 1985, and again amended in 1999, only concerning legalization of some illegally constructed buildings. The plan left very little space for individual housing plots (collective buildings were preferred under socialism), and that was in discrepancy with the growing demand for individual housing units. This is why Belgrade has several settlements consisting exclusively of illegal individual houses built on non-serviced land. This situation is to be changed by the new regulations coming out of the new *General Urban Plan for Belgrade until 2021*, approved by the City Assembly in September 2003.
- ⁸ Approximately 1.6 million people live in the City of Belgrade, according to the latest census data. More reliable data will be known once all official census data are published.
- ⁹ The reason why only this category of flats is taken to demonstrate the tenure structure of the housing stock is that the unofficial preliminary 2002 national census data exist only for this category. This is the largest subcategory of the officially recognized housing stock (433,697 units): about 93 percent (403,254 units) of all flats are inhabited flats for permanent habitation in Belgrade metropolitan area. The rest are temporary, vacant flats for permanent habitation (24,487 units or 5.6 percent), permanently vacant flats for permanent habitation (1,368 units or 0.3 percent), flats used occasionally for holidays or seasonal work (1,560 units or 0.4 percent), and flats permanently used as office space (3,028 units or 0.7 percent) (Republički zavod za informatiku i statistiku 2002).
- ¹⁰ *Belgrade metropolitan area* (so-called “*Naselje Beograd*” in official statistical terminology) is a constnatly urbanizing area that covers most of the ten metropolitan municipalities. Six suburban (rural type) municipalities are totally excluded here.
- ¹¹ The average number of rooms per flat and average number of persons per room will be known only when the official data are published. The respective numbers from 1991 national census were 2.2 rooms per flat, and 1.4 persons per room in Belgrade metropolitan area (Petrović 2002, 80).

- ¹² In Serbia, there are nearly eight million inhabitants, over 2.5 million households and almost three million housing units, according to the 2002 national census.
- ¹³ Due to the fact that the private-rental market is completely unregulated, and that real owners of private rentals do not want to register as landlords in order to avoid paying the tax.
- ¹⁴ According to the unofficially reported behavior of private owners who rent a flat but did not want to report it even for the purpose of the national census, there is reason to assume that a significant part of reported temporary vacant flats (about 24,487 units or 5.6 percent of the housing stock) are in effect private rentals. This suggests, tentatively, that between ten and fifteen percent of all flats in Belgrade metropolitan area might be privately rented. Assumptions of experts before the national census in 2002 were that between five and ten percent of all flats are rentals in the private sector.
- ¹⁵ Petrović (2002, 82) states that according to the 1991 national census data, 1.3 percent of households living in “other-than-flat” premises “out of necessity” in Belgrade (in administrative borders).
- ¹⁶ *Critical overcrowding* refers to single and one room flats occupied by three or more member households, two room flats occupied by four or more member households, and three room flats occupied by six and more member households.
- ¹⁷ *Partial overcrowding* refers to single- and one-room flats occupied by two-member households, two-room flats occupied by three-member households, three-room flats occupied by five-member households, and four-room flats occupied by seven-member households.
- ¹⁸ Looking back at the 1991 census data on overcrowding, Petrović (2002, 81) made a calculation that in 27.5 percent of flats in Belgrade there was *critical overcrowding*, and in an additional 14.7 percent there was *partial overcrowding*. Taken all together, approximately 42 percent of flats had some degree of overcrowding in Belgrade in 1991. The situation seems to have remained unchanged between 1991 and 2002, in spite of emigration from Belgrade, and several waves of refugees coming to Belgrade from Croatia, Bosnia and Herzegovina, and Kosovo throughout the 1990s. The difference between the outcomes of Petrović’s calculation for 1991 and mine for 2002 for two types of overcrowding taken separately, apart from showing some small change, might be due to methodological reasons, and/or preliminary nature of the data for the 2002 national census.
- ¹⁹ Utility costs, as calculated here, cover heating expenditures and electricity. The cost of other utilities—water consumption, waste water disposal, garbage disposal, maintenance of the building, contribution for the use of serviced land—are statistically presented together with the public rent (for those who are public tenants) because all of these costs are integrated into one bill, and paid to one public utility enterprise (Infostan). Thus, it is impossible to make a more accurate calculation, since even the Belgrade Statistical Bureau does not attempt it. This also distorts existing data on the public rent, making it even higher than it should be. Phone bills are not covered by official statistics, so this cost is unknown and not calculated here into any type of housing expenditures. It is important to note that two types of maintenance are distinguished in Serbia: *current maintenance* (consisting of regular cleaning of common spaces and urgent interventions in the case of big problems in the building); and *maintenance as investment* in the renovation of the building. The latter does not exist, there are no funds selected for that purpose, and households do not receive a bill for that. The former is covered in the following way: regular cleaning is organized and paid by the housing association in the building, (i.e. directly by the households living in the building), and only urgent renovations are covered by the public utility company which sends the integrated bill mentioned above.
- ²⁰ The price range for private rent is greater in Belgrade than in other Serbian cities, but the estimation is that the average monthly rent in cities is EUR 100 per one 50 square meter flat. The author who made the estimation of the rent-to-household income ratio made use of newspaper ads and data from real estate agencies in Belgrade. Official statistics do *not* register the rent in the private rental sector in their regular *Survey on Household Consumption*. Thus, there are *no* data on the size of the private rental sector in Belgrade, the quality of flats, and the number of people who live there.
- ²¹ Here, the problem is with the “average.” The average household income is taken as the income indicator in all three cases, though people who live in social rentals in average have probably lower income than the average income for all households suggests. On the other hand, those who live in private rentals certainly have higher than average household income; consider that, during 1990s, about 40 percent of the average household income was spent on food only (Belgrade Statistical Yearbook 2001).
- ²² Petrović estimates that “almost 50 percent of Belgrade households have been in arrears (due to rising utility costs) without being penalized under the existing law, in recent years” (2001, 228).
- ²³ Out of the total of 234 registered, 55 percent are one-person households, and the rest are families with children. “Most of them are living in cellars, old vehicles, containers, without electricity, water supply and sewage” (Petrović 2000, 7). It is clear that many more do not come to the Center and register because they do not expect any help from authorities. Even in the case of those registered, the term “homeless” is not used.
- ²⁴ According to the 1991 national census data that would represent approximately 33,000 households in Belgrade. According to a statement of the Serbian Minister for urban planning and construction in September 2002, in Belgrade alone there are 40,000 families whose housing status is not solved (Interview with Dragoslav Šumarac for *Blic*).
- ²⁵ As well, only about eighteen percent of refugees and 7.6 percent of internally dispersed people from Kosovo had their housing situation solved in Serbia in 2001 (see *National Strategy for Solving the Situation of Refugees*, Serbian government 2002).
- ²⁶ According to the UNHCR data, 60 percent of 660,000 refugees in Serbia want to stay in Serbia and do not want to return.
- ²⁷ The part of the strategy that deals with housing solutions for refugees recommends: i) programs of accommodation in housing units to be purchased into private ownership by refugee households; and ii) accommodation programs into social rental housing and medical centers. Recommended social housing is supposed to be built in less urbanized and cheaper zones of Serbian cities and towns, with fewer square meters per person and lower quality standards (about 30 square meters per flat). Rents would be subsidized, but the tenant would pay utility costs. The contract would be periodically

renewed if the conditions were still satisfied by the family. Apart from refugees (2,500 units for refugees), the program for social housing is supposed to cover a certain number of the domestic socially deprived population (1,000 units). Financial sources would come from the Serbian budget and donors (*National Strategy for Solving the Situation of Refugees in Serbia* 2002).

²⁸ Until February 2004, no further steps have been taken in this direction.

²⁹ Looking at the organizational side of the work on the *Poverty Reduction Strategy* also shows that poverty in housing was not included in the concept of poverty that the PPSP and Serbian government intend to address. The inter-ministerial body, consisting of the representatives of most ministries of the Serbian government, did not include a representative from the Ministry for Urban Planning and Construction, which is officially responsible for housing issues. But in February-March 2003, the Secretariat for Social and Refugee Related Housing and an urban sociologist were invited to make a proposal for urban poverty reduction

³⁰ The team working on PRSP ordered the *Survey on the Living Standard of the Population* (SLSP) on 6,400 households in Serbia that was meant to be the first comprehensive study on the basis of which a poverty line can be finally reliably defined in Serbia. The survey was done in May-June 2002. Then the poverty line in Serbia was set up at 4,489 dinars or USD 72 per month (USD 2.4 per day) per person. Below this line is about 10.6 percent of inhabitants of Serbia or 80,000 people. However, just a small shift of the poverty line upward significantly increases the percentage of the poor. Accordingly, the number of *financially vulnerable* was calculated: if the poverty line is shifted to just 5,507 dinars per person, 20 percent of the Serbian population or about 1,600,000 individuals fall behind the poverty line (*Poverty Reduction Strategy Paper*, October 2003).

As can be expected from the fact that poverty in housing was not initially included in the *Poverty reduction strategy*, the survey was not meant to investigate the housing needs of the population, although it was meant to be the most comprehensive and up-to-date study on poverty in Serbia! However, in a section of the LSMS there are questions that are related to the housing expenditures, utility bills, arrears in paying different types of utility bills, and the quality of the housing conditions of the respondents. These data were partly used for the previous section of the paper.

The previous study on poverty in Serbia (*Poverty in Serbia and the Reform of the State Transfers to the Poor* 2002), ordered by the Ministry for Social Care, was completed in 2001. It was meant to deal with then existing statistical indicators in defining poverty, to analyze the shortcoming of the statistical methods used in Serbia in describing poverty, and analyze existing social policy for different groups of those in need. That recent study, however, was not based on a specially-for-that-purpose prepared survey and methodology new in the Serbian experience, as it is the case with the LSMS.

According to national measures of poverty (accepted until recently), in the first half of the year 2000, “almost one-third of the population in Serbia (2.8 million) was considered poor, with an average income of less than USD 30 per month. Overall, 18.2 percent (1.44 million) was living in a state of absolute poverty, with the monthly income less than USD 20 in average” (*Initial Framework of the Poverty Reduction Strategy for Serbia*, June 2002, 7).

³¹ The credit contracts were signed with four domestic banks on the amount of 1,650 million dinars (about EUR 27 million). The repayment period is five years, with a total yearly interest rate of 7.5 percent (The City of Belgrade Beoinfo, September 2002).

³² It was announced that banks giving credits for this construction project will be allowed to build additional 500 market-rate flats in the same locations (The City of Belgrade Beoinfo, 2002; Petrović 2002, 150).

³³ After the public call in September 2003, about 6,000 people applied for 1,000 flats that were offered.

³⁴ However, there is no indication of how the buildings with social flats will be maintained. The decision of the Belgrade City Assembly only prescribes that the person who is given a rental flat is required to return the flat in the same condition as before moving in, taking into account necessary changes after regular use of the flat (Belgrade City Assembly 2003).

³⁵ The plan recommends that five to eight percent of housing units in these zones are used for social housing.

³⁶ The City of Belgrade consists of sixteen municipalities—ten metropolitan, and six suburban. The 2002 Law on Local Government refers to the level of municipalities. It was announced that, six months after the Law entered into force, a subsequent Law on the Capital City of Belgrade would be drafted. However, it is still not ready and not much is known about the state of the preparation process. Thus, the division of responsibilities between the Belgrade City government and municipal level governments are not completely legally clear—and this is not only in regard to the housing sector.

³⁷ According to these results, the total number of households in Belgrade in 2002 was 588,674; the total number of housing units/flats was 631,197. The index of the increase in the number of households between 1991 and 2002 is 114.3, and the index for flats is 115.6.

³⁸ This number derives from the following calculation: the number of flats and households was estimated and compared, then flats built before 1919 were added, together with the number of flats with more than one household, and the number of living spaces where people live “out of necessity” (Belgrade Urban Planning Institute 2001, according to Petrović 2002, 153).

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TOO POOR TO MOVE, TOO POOR TO STAY



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A REPORT ON HOUSING IN THE CZECH REPUBLIC, HUNGARY AND SERBIA

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Housing is no longer a fundamental right but a political and economic liability in Central and Eastern Europe. Funding and construction of housing has decreased severely. The result of this dramatic turn has been the creation of a class of “housing poor”—people unable to rent or buy market-rate housing or maintain housing on their own.

Housing poor may be homeless, living in overcrowded conditions, living in illegal or substandard housing, paying too large a percentage of income for rent, or unable to pay for utilities or rent. Almost 50 percent of households in the region fall into one of these categories.

As part of the LGI Fellowship Series, *Too Poor to Move, Too Poor to Stay* considers this new type of poverty. Key areas of importance—not only for the cities of Prague, Budapest and Belgrade covered in this report, but all over Central and Eastern Europe—include: effects of housing privatization, allocation of responsibility between central and local governments for housing the poor, effects of past government policies on construction and availability of affordable housing, political and economic causes of any decline in housing production, quantity and type of housing built since the transition, effects of tenant protections, and the situation of groups benefiting from or burdened by government regulations.

Rampant growth of the private market has followed the decline of housing estates occupied by a largely destitute population. Instead of ignoring this development and its impact on the poor, this study suggests:

- A legal framework for housing that helps to develop market-oriented institutional structures from mortgages to regulations on illegal building
- Measures to encourage the re-establishment of rental housing, especially for low-income households
- A means for tackling the backlog of repairs and maintenance in high-rise housing
- The development of a subsidy system that supports low-income owners

Without these housing policy reforms, many people will remain “too poor to move and too poor to stay.”

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