Workshop 1 - East European Housing & Urban Policy

Housing Policy and Housing Markets in South East Europe: Nations of Homeowners

Sasha Tsenkova
tsenkova@ucalgary.ca

Paper presented at the ENHR conference
"Housing in an expanding Europe: theory, policy, participation and implementation"
Ljubljana, Slovenia
2 - 5 July 2006
Housing Policy and Housing Markets in South East Europe: Nations of Homeowners

Sasha Tsenkova, PhD
Professor of International Development
University of Calgary, Faculty of Environmental Design, Canada
tsenkova@ucalgary.ca

Abstract

Housing Policy and Housing Markets in South East Europe: Nations of Homeowners

South East Europe is home to 57.8 million people. It includes eight countries with very different size, population, resources and stages of economic and social development. Perhaps the common feature in housing terms is the high degree of private ownership effectively establishing ‘nations of homeowners’ in South East Europe. This study is driven by the premise that housing policy matters and that better policies lead to more efficient performance of housing systems. The conceptual framework for the comparative analysis defines three distinct policy arenas- fiscal, financial and real estate policies each governing policy outcomes, instruments and types of intervention. Given the diversity of policy responses across the region, the focus is on policy outcomes and progress towards the achievements of: i) competitive housing markets; ii) transparent and well targeted housing subsidies and iii) well functioning system of housing finance. The study uses the result of a housing policy and housing market survey carried out in 2005 to evaluate the comparative performance of housing systems of eight countries in the region with respect to distributional efficiency, improvement of housing quality, stability of investment & production; affordability and choice.

1 INTRODUCTION

South East Europe is home to 57.8 million people living in more than 20 million dwellings. It includes eight countries with very different size, population, resources and stages of economic and social development. Perhaps the common feature in housing terms is the high degree of private ownership effectively establishing ‘nations of homeowners’ in South East Europe. Despite its overall diversity, the region is often perceived to be homogenous due to the ideology of socialist ruling regimes regardless of the historical and cultural differences between countries. The former socialist countries were for several decades governed by distinctly different ideological principles with extensive state control over property rights and the provision and allocation of housing (Clapham et al, 1996; Hegedus et al 1996). Political changes in the early 1990s (re)introduced markets, parliamentary democracy and important institutional reforms, thus changing dramatically the housing policy scene. Although countries in the region have a common legacy, there were significant differences in the way the socialist model was implemented as well as in the housing conditions of these nations (Tsenkova, 2003). Housing systems are ‘path dependent’, which influences the newly established housing markets during the transition in different national contexts. These initial differences in return are multiplied by the choice of housing policy instruments and the type of intervention selected by governments during the transition (see Pichler-Milanovic, 2001; Petrovic 2001).
This study is driven by the premise that housing policy matters and that better policies lead to more efficient performance of housing systems. The conceptual framework for the comparative analysis defined three distinct policy arenas, each governing policy outcomes, instruments and types of intervention. The analysis reviewed developments in three major policy areas affecting the housing systems -- fiscal, financial and real estate policies (see Buckley and Tsenkova, 2000; Tsenkova 2005). Given the diversity of policy responses across the region, the focus was on policy outcomes and progress towards the achievements of:

- Competitive housing markets.
- Transparent and well targeted housing subsidies
- Well functioning system of housing finance.

A well functioning housing system needs to maintain a steady flow of investment in improvement of housing quality and to ensure that households have access to affordable and decent housing. Quality, affordability and choice are critical factors in evaluating national housing system performance. Given that the implications for public policies are associated with the cost of public support for production and consumption of housing, the analysis evaluated the performance of housing systems in South East Europe using a range of indicators to compare:

- Distributional efficiency
- Improvement of housing quality
- Stability of investment & production
- Affordability and choice.

The following sections summarize key findings from the comparative evaluation.

2 EVALUATION OF HOUSING POLICY REFORMS

2.1 The second phase of housing reforms

The second phase of housing reforms in South East Europe since the mid-1990s has proceeded through ‘trial and error’, focusing on problems to be remedied rather than strategic intervention. This incremental style of policy action means that there is no radical change and that housing policies evolve through complex and reciprocal relations between bureaucrats, politicians, and representatives of interest groups. There have been limited attempts to launch more strategic intervention in Moldova, Albania and Romania.

Most countries in South East Europe today have a myriad of regulations and housing related initiatives that are not necessarily consistent and coherent with stated housing policy goals and objectives (UNECE 2000; 2002; 2005). Despite some diversity of housing policy experiences, the reform path emphasizes less prominent controlling and subsidizing role of the state and a greater role of the market. Generic subsidies have been cut back and responsibilities for social housing devolved to local governments. However, new transfers have emerged, such as deductibility of mortgage interest or contract savings in Croatia and Romania. New programs providing public/social housing for low-income households have been introduced in Romania and Former
Yugoslav Republic of Macedonia. These developments sketched in broad strokes, are comparable elements of housing policy pursued in South East European countries. Yet, some specific arrangements, the timing of these instruments and the response of different housing systems, determine a range of ‘enabling’ housing market strategies (Doling, 1997).

The second phase of the reform has marked a shift to mixed instruments (demand-based subsidies to support homeownership or post-war reconstruction) and institutional development aiming at building market-based institutions of housing finance and other market intermediaries. In the realm of ‘compulsory instruments’, housing policy activity has focused on harmonization of the legal framework for housing management, property registration, mortgage and construction. Public provision of housing has remained limited. A harsher public expenditure regime has lead to less investment in social housing, although in some countries limited support for low income and socially disadvantaged groups has been launched.

The direction of change is no doubt the same across the region, and the underlying elements are similar. However some countries have been more successful than others in designing and implementing housing reforms. In fact, notions of convergence do not really match the reality of widening differences in the structure and operation of housing markets between Albania and Croatia for example, or Bosnia and Herzegovina and some of its South East European neighbors.

2.2 Progress in developing effective legal and institutional framework

Perhaps the hallmark difference between housing systems in socialist and market economies is the role the public sector plays in ownership and control of housing assets. A transition to a market-based system implies a higher degree of private ownership over housing, no restrictions on market exchange and less state (public sector) involvement in the provision of housing services. The analysis also looked at the degree of competition in the supply of new housing and the provision of land, as well as the development of market-based structures to operate and maintain the existing stock and deal with property rights registration.

Development of the legal framework is the cornerstone of the second phase in housing reforms. Some countries have been more successful than others in designing and implementing adequate legislation to ensure a more efficient market-based system of housing provision. Across the region, private property rights in housing and real estate are adequately protected (Butler et al, 2004; Rabenhorst 2000). Despite progress in developing legal frameworks for cadastre and property rights registration, in a number of countries the system is ineffective, incomplete and often court-based (Serbia, Croatia, Former Yugoslav Republic of Macedonia and BiH). A handful of countries (Romania, Croatia and Montenegro) have introduced mortgage legislation. With respect to housing management, progress is uneven and despite the introduction of housing acts and/or special condominium legislation, very few countries have an adequate legal basis. In fact, even if the legislation exists (Albania and Moldova), the enforcement is inadequate. The formation of institutional entities, such associations of homeowners or condominiums, has been very slow and in most countries the market for maintenance and management is dominated by municipal companies (Hegedus and Teller 2004). With respect to multifamily housing, the legislation in Serbia, Montenegro, Bulgaria and BiH fails to impose in reality an obligation on residents to take responsibility for buildings, which in practice leads to further deterioration of the stock (Tsenkova
Efforts to reform the legal framework for planning have been limited and particularly ineffective in BiH, Serbia, Montenegro, Albania, Kosovo and Former Yugoslav Republic of Macedonia. The primary problem is access to land and cumbersome planning and building permit process. In addition, massive illegal construction, especially on the periphery of urban settlements, testifies to a failure to develop a coherent and comprehensive urban planning and zoning policy.

In the area of institutional reforms, the comparative assessment highlighted the new roles and responsibilities of public and private institutions in the production, allocation and consumption of housing in South East Europe. Fiscal austerity and economic uncertainty have affected the operation of central and local governments in the region and their ability to formulate and effectively implement housing policies. The public sector both at the central and local level has a limited capacity and tends to focus on legislative reforms. Local governments in some countries have acquired important responsibilities related to public housing (Bulgaria, Moldova, and Romania). The lack of well-established regulatory institutions at the central and local level, as well as the weakness of financial institutions (particularly in Serbia, Albania and BiH), contributes to the inefficiency and immaturity of emerging housing markets in South East Europe. In most of the countries the construction industry has been privatized and most of the new housing is provided by the private sector where private building firms, landlords and developers have a significant role. In countries where the market for maintenance and management services has

**Figure 1 Summary evaluation of progress in legal and institutional reforms**

![Diagram showing the evaluation of progress in legal and institutional reforms. The x-axis represents the level of legal framework efficiency, with less efficient legal framework on the left and more efficient legal framework on the right. The y-axis represents the level of private institutional framework development, with well developed private institutional framework at the top and undeveloped private institutional framework at the bottom. Countries are plotted on the diagram based on their level of reform progress.]
been liberalized (Bulgaria, Croatia, FYROM), private firms have emerged, although they do not seem to be professionally licensed. Market intermediaries—real estate agents, property appraisers, notaries—exist in Bulgaria and Romania, but in the other countries have not been professionally established (Merril et al 2003).

Figure 1 presents the relative progress of different countries with respect to legal and institutional reforms to ensure efficient provision of housing services by the private sector. This stylistic presentation positions most of the countries in the area where private institutions are underdeveloped with a cluster of countries—BiH, Serbia, Former Yugoslav Republic of Macedonia and Kosovo/UNMIK—further disadvantaged by inadequate legal framework.

2.3 Progress in developing transparent and targeted fiscal policies

The study used a number of fiscal indicators to measure policy outcomes in terms of direct expenditures of the government, positive or negative (i.e., a tax), and indirect, such as rent control. In particular, it looked at the level of transparency and targeting of public funds in the housing system. Another important aspect of the evaluation is related to different subsidy types: i) supporting homeownership or public rental housing; and ii) demand-based or supply-based since it is particularly important for governments to know what type of subsidy is most efficient and equitable. Finally, and for transition economies perhaps the most important measure, is the level of subsidies in terms of share of GDP.

Despite the generic subsidy cutbacks during the transition, the housing sector in South East Europe still maintains a diverse set of measures to ensure access to affordable housing as well to provide assistance to groups with special housing needs. The mix is complicated to evaluate since there is no systematic assessment of different government programs (central or local) in terms of their efficiency (costs), targeting and effectiveness (outreach). Expert estimates suggest that in most countries housing subsidies, excluding war reconstruction, are less than 1 percent of GDP (Council of Europe Bank 2004).

Most of the support aims at homeowners providing a combination of public provision and demand-based assistance (grants, interest subsidies and tax incentives). Romania and Croatia have the most comprehensive housing programs, while in Bulgaria and Former Yugoslav Republic of Macedonia housing has almost disappeared from the policy agenda in the last fifteen years. Albania and Moldova are grappling with major economic difficulties, which reduce fiscal support to a limited set of policy measures with inefficient targeting. Although there has been an attempt to reduce the commitment of governments through state provision of housing, an overwhelming majority of the countries still maintain these types of programs. In Albania the target group is limited to households affected by restitution or identified as ‘homeless’, in Romania and Moldova public housing agencies are using state subsidies (frozen assets in unfinished housing construction) to complete the projects with additional funding from potential homeowners. In Romania, the national housing agency is building subsidized housing for young households. Serbia and Montenegro until recently maintained a socialist type of housing provision through the Solidarity Fund. Similarly, a large number of countries have grants and subsidies for homeowners with a mix of programs assisting war reconstruction (BiH, Croatia and Kosovo/UNMIK) and
subsidies to purchase housing (Bulgaria—the ‘old savers’, Croatia and Romania—contract savings). Tax incentives for homeowners are applied in Romania and Croatia.

Support for the public rental sector is limited to a handful of countries in the region. Romania, and more recently Former Yugoslav Republic of Macedonia have initiated programs for new construction of social rental housing. Similar plot projects with a credit from Council of Europe Development Bank are under preparation in BiH and Serbia. Housing assistance to low income households is provided in Romania and to a limited extent in Moldova and Bulgaria (energy allowance). The subsidy mix also includes some rent control in denationalized housing in Croatia, Albania and Bulgaria with no targeting with respect to income.

Despite the relatively low level of direct budget allocations for housing, considerable public resources indirectly flow into the sector. These implicit housing subsidies take a variety of forms: subsidies to cover emergency repairs in multifamily housing, provision of land and infrastructure for owner-occupied and rental housing under new programs (Romania, Serbia, Moldova, Albania), below market rents in public rental housing, non-existent market based property taxation (Serbia, Montenegro, BiH, Former Yugoslav Republic of Macedonia), no value added tax on housing construction (Serbia), no cost-recovery mechanisms for utility infrastructure connection and improvement. This lack of financial transparency in the housing sector as well as fiscal discipline reflects the rudimentary nature of fiscal housing policies in the region and needs to be reconsidered. Taxes, fees and targeted subsidies are essential policy tools directed to rationalize housing consumption and encourage private investment in housing. They also mobilize finances for social groups in need of housing support.

In summary, most countries in the region have fiscal policies that support homeowners through a combination of public provision (supply side subsidies) and demand-based assistance (grants, interest subsidies and tax incentives). The targeting is low, since in most cases programs facilitate access to newly built housing, which is the most expensive form of housing provision at the moment. Owners are expected to match the subsidy with own savings or mortgage and tend to have income well above the average. While these types of programs leverage investment in new construction, it is questionable if scarce public funds should be used to support upper middle income households. Meanwhile little government funding is directed to public rental housing or assistance of low income households experiencing affordability problems. There is no information on the number of units delivered under each program, its cost and/or the cost of different tax deductions and grants. It is imperative to start monitoring for housing policy purposes with transparent indication of the implications for the state budget. This will assist in ensuring the sustainability of fiscal policies.

Figure 2 presents the mosaic of demand- and supply-based subsidies supporting access to homeownership in the region. Most of the countries have supply-based programs, which aim at public provision of subsidized housing. Access to homeownership in these cases is for high income households, while limited targeting exists in Albania and Romania. Demand-based subsidies in Croatia and Romania target high income households that can qualify for contract savings loan, while in Bulgaria a small uniform subsidy is given to ‘old savers’.
2.4 Progress in establishing a well functioning system of housing finance

Financial indicators in the study measured the availability of long-term financing for housing and the diversity of mortgage products. They also explore the relationships of housing and mortgage markets and the efficiency of the legal basis for housing finance (mortgage legislation, collateral, foreclosure). Efficiencies of mortgage institutions can be measured by the terms of mortgage lending—loan-to-value ratio, amortization period, interest rates—as well as the spread (the margin between interest rates on mortgages and deposits).

The evaluation of housing finance systems in South East Europe concluded that it is still in the early stages of development (see Registra et al 2004a; 2005a,b). Governments identify the lack of housing finance as a main constraint for efficient operation of the housing market and access to affordable housing. Mortgage lending is dominated by large commercial banks, often with foreign ownership, bringing international underwriting and servicing skills. Lenders are competing for consumer lending, particularly in Croatia, Bulgaria and Romania, which ultimately is of great assistance in providing more affordable housing finance. Collateralized mortgage lending for the purchase or renovation of housing has grown by 20-40 percent on average in the last two years in Former Yugoslav Republic of Macedonia, Bulgaria and BiH (Registra et al 2004b; 2005a). Banks have started to offer much more competitive financial terms—particularly longer maturities and lower interest rates—and apply less restrictive underwriting criteria. In Romania, for example, concerns over rapid mortgage lending compelled the National Bank of Romania to establish a
maximum payment-to-net income ratio of 35 percent and a maximum loan-to-value ratio of 75 percent.

The Croatian mortgage market at present, although still far from EU standards, is extremely more developed than any other in the region. The total amount of outstanding mortgages represents 12 percent of GDP and is 20 times the amount in BiH and over 60 times the amount in FYROM or Serbia (Merril et al 2004; Registra et al 2005b). However, the growth of real estate lending is limited by the legal and administrative problems, especially those plaguing foreclosure and registration (BiH, Croatia, Serbia, and Former Yugoslav Republic of Macedonia). Banks have conservative underwriting criteria, often requiring two to three guarantors and collateral, due to legal uncertainties and incomplete property registration systems. Banks are inherently suspicious of private developers and there is no lending for new housing construction (in Serbia, FYROM, and Montenegro due to state ownership over construction land).

Figure 3 Development of primary mortgage market and legal framework

Primary market support functions, especially important in market mortgage lending, are still underdeveloped in the region. An effective legal infrastructure, including foreclosure and repossession; an appraisal process based on international standards; credit information bureaus; and mortgage-related insurance products are important support functions, which to some extent exist in Bulgaria and Romania. Overall, the development of effective institutions—credit bureaus, notaries, property appraisers, mortgage brokers—in the emerging housing markets of South East Europe faces numerous challenges (UNECE 2002; 2005). In addition, high interest rates and underreported income in the region, including the substantial amount of informal income, limit both
the number of qualifying clients and the size of the loan. The interest rate spread between loans and deposits in local and foreign currency is still considerably high, two to three times higher compared to the average in Hungary and Slovakia. As a result of high interest rates and interest rate spreads, but also perceived risks in mortgage lending, banks have focused their marketing on the upper income groups and favor corporate customers. It is estimated that even in Croatia with the most advanced housing finance system in the region only 14 percent of the households can qualify for a mortgage as opposed to 3 percent in Former Yugoslav Republic of Macedonia or less than 1 percent in Serbia (Registra et al 2004b; 2005a).

Figure 3 schematically represents the relative position of countries in the region with respect to adequate legal framework for mortgage lending and efficient operation of institutions in the primary mortgage market. Croatia, Romania and Bulgaria have achieved significant progress, however, the primary market support functions in Croatia need significant improvement. In BiH and Former Yugoslav Republic of Macedonia the state of property registration system and court-based enforcement of foreclosure limit significantly the potential development of the mortgage market.

3 Evaluation of Housing System Performance

3.1 Distributional efficiency

Housing availability in South East Europe in terms of number of dwellings per 1,000 people varies from 254 in Albania to 465 in Bulgaria. Although these aggregate indicators are lower than the average for EU countries, the GDP per capita in the region is one third of the average in the EU, which affects the amount of investment available for improvement in housing conditions. It is difficult to find both reliable data and good measures for the quantitative aspects of the housing situation in the region. Dwellings tend to be small with 2.7 rooms on average; Romania stands out with 37 sq m of average useful floor space per person (Tsenkova 2005).

Households tend to be larger in Albania and Kosovo/UNMIK, while Bulgaria has the smallest household size of 2.7. More than 40 percent of the households in the region have more than 3 members, which highlights an important dimension of the housing problem. The structure of the housing stock – in terms of size and number of rooms is inadequate compared to the size and structure of households. However, all countries with the exception of Kosovo/UNMIK have a surplus of housing compared to the number of households. The housing surplus is in the range of 12-14 percent in most countries with Albania (7%) and Montenegro (24%) being the two extreme situations. In addition to housing surplus, most of the countries have high vacancy rates— as high as 24 percent in Bulgaria and between 10-14 percent in most of the other countries—which demonstrates inefficient use of the housing stock. At the same time, large urban centers, particularly in countries affected by war and the refugee crisis, experience considerable shortages of housing and overcrowding. Thus the general mismatch between the composition of households and housing stock is compounded by a spatial mismatch. The stock in not the right place, there are cities where housing shortages, or even homelessness, exist in the face of an overall national surplus. High vacancy rates might be due to substandardness of housing, lack of demand in rural areas or people’s reluctance to return to pre-war places of residence.
3.2 Improvement of housing quality

In South East Europe quality problems of the existing housing stock have attracted significant public attention. The available data indicate overall housing improvement in the region since 1990s. However, cumulative shortages of financing for infrastructure development in rural areas during communism, coupled with scarcity of public resources in the last decade, have resulted in widening differences in access to basic infrastructure between urban and rural areas. While the majority of the urban housing (80-98 percent) has piped water, two thirds of the dwellings in rural Moldova, Albania and Romania lack modern water and sewerage facilities. At the national level, the provision of piped sewer is particularly critical. It is lacking in close to 80-70 percent of the dwellings in BiH and Moldova, while in Albania and Romania the share is 60 percent. Furthermore, the scarcity of resources for much-needed upgrades in the technical infrastructure has led to deterioration of existing networks and frequent disruption of services. Indeed, the question of housing quality in South East Europe is directly related to improvement of access to safe drinking water and sanitation (Council of Europe Bank 2004).

Closely related to housing quality are the age characteristics of the housing stock. The available data indicate that half of the housing across the region was built after the 1970s. The output from 1971 to 1989 was particularly significant in all countries (30-45%) with the exception of Romania, where the share of new construction between 1946 and 1970 played a more prominent role. Housing production in post-transition years added close to 18 percent to the housing stock in Albania and Former Yugoslav Republic of Macedonia, while in the other countries this share was lower than 10 percent. Despite the fact that the housing stock is relatively new, close to 30 percent is in the form of multi-apartment housing, which has deteriorated significantly due to lack of maintenance. Another characteristic feature is the existence of panel housing, mostly in urban areas. Estimates suggest that it makes up to 30 percent of the housing stock in Albania and more than 20 percent in Bulgaria, Romania and Moldova. These panel blocks are generally in poor condition with major need for significant upgrades to ensure safety, quality and energy efficiency standards.

Housing quality in war affected countries has deteriorated substantially. In BiH these challenges are particularly significant. Some 445,000 homes in the country have been partially or totally destroyed, which is more than a 37 percent of pre-war housing stock. In Kosovo/UNMIK, 30 percent of the housing stock was damaged and in some cases whole villages were totally destroyed. According to the Ministry of Public Construction in Croatia the damaged and demolished housing stock is over 200,000 dwelling units, or close to 13 percent of the total for the country.

While it is obviously difficult to compare progress achieved with respect to availability and quality of housing, Figure 4 maps out the relative position of different countries using data on housing per 1,000 (correlated with average size of units) and share of housing stock with piped water and sewer. Croatia, Bulgaria and Former Yugoslav Republic of Macedonia have generally better housing conditions, while in Montenegro, Romania and Moldova despite general availability of housing, quality is problematic due to lack of essential services. This stylistic presentation positions the rest of the countries in the more problematic areas due to housing shortages, war-related damages and low quality of infrastructure provision.
3.3 Stability of housing investment and production

From a quantitative perspective, the level of new housing construction has reached low levels with rates of new dwellings per 1000 around half of the level in the 1990’s. The decline in Bulgaria, Moldova and Serbia was much more pronounced due to the rapid withdrawal of state support for housing and economic difficulties. Despite the general picture of profound recession observed till the mid-1990s, a rather heterogeneous situation has emerged. Rates of housing production are relatively stable across the region with Former Yugoslav Republic of Macedonia and Croatia maintaining a level close to 2 units per 1000 residents, while in the other countries this is less than 1/1000. Most of the new housing (over 80 percent) is produced by private developers with a significant share of single family housing built mostly in the form of self-help (Tsenkova 2005).

Reportedly, a significant share of new housing across the region is illegal leading to the formation of informal settlements in Tirana, Belgrade, Pristina and Sarajevo. Among other systemic reasons, the flow of refugees and internally displaced people has contributed to illegal construction in larger cities (Wegelin 2003). Apart from addressing urgent housing needs, illegal investments in real estate have been used by many households as a ‘shield’ against instability and hyper-inflation. Given the low production levels in the region during the last decade, it appears likely that a large cut back in residential capital has occurred. However, this is consistent with lower population growth and might be offset by investment in renewal as well as illegal construction of housing.
Notwithstanding progress, housing production capacity in the region remains limited because:

- the lack of serviced land has resulted in high land prices in major cities
- cash payments have become the basis for financing home construction in the absence of alternative financing and the unattractiveness of mortgages financed at market rates
- private builders are servicing mainly the upper end of the housing market and little capability is being developed to serve the general market.

### 3.4 Affordability and choice

The distribution of the housing stock by tenure category is characterized by a reduced share of public housing stock and a predominance of owner occupied housing. In most of the countries across the region, owner occupation exceeds 90 percent, which is well above the 60 percent average in the EU. Although some of this housing might actually function as private rental, responding to pressures from migration and labour market adjustment, the tenure structure in South East Europe is quite polarized leaving a small and residual sector of publicly owned social housing (ranging from close to 9 percent in Bulgaria and Bosnia & Herzegovina to less than 1 percent in Albania and Former Yugoslav Republic of Macedonia).

**Affordability in public rental housing.** Despite rapid privatization, the public rental sector in the region includes close to 790,000 units. In most countries the sector still operates like a 'command' system where ownership and management is vested with the state and municipalities and pricing policies are not sensitive to demand or quality of housing services. Allocation decisions in the shrinking portfolio continue to rely on bureaucratic processes, although preference is given to socially disadvantaged households. Rents tend to be less than 10 percent of market rents; however arrears have escalated due to concentration of poor families in the sector (Hegedus and Teller 2004; Tsenkova 2005). Even though public housing in South East Europe functions more like a safety net, it will be important to introduce housing allowances, which would ultimately seek to integrate the administration of all household welfare payments (e.g. including utility compensation payments and rent) within a common, transparent framework.

**Affordability in owner-occupied housing.** In most countries, as a result of mass privatisation, the size of the owner occupied sector has increased substantially mostly through transfer to sitting tenants (free of charge, through vouchers or nominal fee). While these populist policies have been equally attractive across the region, governments have been reluctant to introduce market-based property taxes and other fiscal mechanisms to leverage private investment in the maintenance of these housing assets. Despite the economic and social hardships, most households in South East Europe have mortgage free housing. In some buoyant markets this translates into substantial wealth 10-12 times the average annual household income. The analysis revealed that housing costs in selected countries in the region show a distorted pattern. First, housing costs consume less than 8 percent of the household budget (Moldova is a notable exception), which is much lower than the EU average. Second, expenditure on utilities is much higher than spending on maintenance and other housing related costs with a significant imbalance in Serbia and FYROM. The consequences are no doubt further deterioration in the quality and standard of housing.

Homeownership across the region has become increasingly polarised including an affluent and a low-income ownership sector. At present home ownership conveys mixed images ranging from the
established, financially secure multiple income households, the asset rich but cash poor elderly, to
the unemployed and overcrowded homeowners. None of those categories is homogeneous; however, despite these differences house price inflation has shifted the market power to existing
owners, while newly formed households are disadvantaged. Rising prices, particularly in the capital
cities, are central to the viability of the homeownership market. Differences are reinforced by
overcrowding or overconsumption as well as the growing differences in the house prices in
particular submarkets (e.g. inner cities vs. peripheral housing estates).

**Housing choices in the region today are very limited – households need to become homeowners, or rent in the informal private rental sector.** Chances to qualify for public housing are marginal, given its small share and low turnover in most countries. Notwithstanding preferences for
homeownership, most households in South East Europe overwhelmingly do not have the income
and savings to purchase a home. Low wages and employment uncertainty coupled with escalating
housing costs and mortgage rates have reduced effective housing demand. Even though
households were prepared to pay higher costs for their housing, they found themselves squeezed
out of the homeownership market with limited opportunities to improve their housing situation. The
gap between income and entry costs has increased dramatically. Current mortgage arrangements,
income levels and house prices have created significant affordability constraints for new
households. The previous housing shortage has been replaced by a shortage of affordable
housing.

**The housing choices for refugees are almost non-existent.** Southeast Europe has experienced the
largest refugee crisis in Europe since World War II. Although significant progress has been made,
some 850,000 displaced people are still in need of durable solutions. This applies in particular to
more than 20,000 elderly and vulnerable refugees and internally displaced people who continue to
reside in collective centres (Wegelin 2003).

Figure 5 presents the comparative position of the countries under review using two proxies for
stability of housing investment and tenure choice. Using data on rates of new construction per
1,000 and level of homeownership, the figure stylistically presents the opportunity for housing
choice for new households. In countries where the tenure structure is less polarized—BiH,
Bulgaria, Croatia and Moldova—households are not forced to become homeowners. A high level of
new construction in these cases enables mobility (e.g. access to public and private rental, filtering
of existing owner-occupied housing). In the other cluster of countries—Albania, Former Yugoslav
Republic of Macedonia, Serbia and Montenegro—due to the extremely polarized tenure structure
and perhaps high demand in some urban areas, households are housing themselves investing in
new, often illegal, construction.
4 CONCLUDING COMMENTS

In conclusion, while recognising the differences among the countries of South East Europe, this study has highlighted several common issues pertaining to housing reforms.

First, the analysis has used a set of indicators to provide credible quantitative perspective on comparative housing system performance, as well as insights into strategic policy questions. These policy and market indicators provide a rapid, inexpensive, but nevertheless credible perspective on housing policy reforms and need to be monitored on a regular basis. In addition to important information for policy makers on further reforms addressing significant constraints, this comparative approach facilitates collective learning from the experience of the most successful countries.

Second, the comparative evaluation suggests that a much stronger commitment to comprehensive reforms in the major policy areas leads to better housing system performance. Although housing conditions were different at the start of the transition, and some nations were better housed than others, it appears that stronger policy environments and the choice of policy instruments have enhanced the performance of the most successful reformers. Attempting to simplify apparently very complicated issues, one could make judgments and/or recommendations about the strategy and sequencing of reform. Despite their differences and dependency on socialist legacy, the countries’ experience suggests links between specific types of reforms and performance. It might be argued
that there is a “reform path” that countries have to follow to successfully to improve market performance.

Third, accelerating the restructuring of the housing sector along market principles is closely linked to the stabilisation of the economy but also depend on the commitment of governments to improve fiscal financial and real estate policies. On the fiscal side, policies that ensure a more efficient use of public resources in the housing sector, as well as policies aiming at establishing a more efficient and equitable distribution of subsidies, seem to be necessary. In particular, support for social rental housing and demand-based assistance to low income households should be introduced. Separate, but not necessarily complementary policy measures and short-lived financial incentives promoting homeownership need to be reconsidered. On the financial side, policy reforms so far have encouraged the transition from a highly centralized and subsidized system of housing finance to a system driven by private initiative and real cost of housing services to consumers. Policies to develop a more efficient infrastructure supporting the primary mortgage market need to receive priority in the region. In the area of real estate policies to encourage competitive provision of housing services, further action needs to address legal changes ensuring the effective management of privatized multifamily housing, as well as procedures to finance maintenance and renovation, particularly to improve energy efficiency of existing housing.

Acknowledgement

The author gratefully acknowledges the financial support of the Council of Europe Development Bank for the comparative work in eight countries in the region. The study was published in a separate volume *Trends and Progress in Housing Reforms in South East Europe* by the Bank in 2005. To receive a copy, please contact Mr Dimo Iliev at [dimo.iliev@coebank.org].
REFERENCES


__________ (2005a) *Housing Finance in Macedonia*, draft report prepared for IFC, Washington DC.


