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A L B A N I A S E R I E S

April 2000

Recent Reforms of the Urban Housing System in Central and East Europe

William C. Thiesenhusen



Land Tenure Center

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RECENT REFORMS OF THE URBAN HOUSING SYSTEM IN CENTRAL AND EAST EUROPE

by

William C. Thiesenhusen¹

The urban housing system in most of Central and East Europe (CEE) is undergoing decentralization, deregulation, and privatization together with other basic changes due to the fall of the iron curtain, the demise of the Soviet Union, and the reinstatement of democracy. This literature review shows that while there was a housing shortage in CEE during the period of state socialism, the privatization that has occurred since about 1990 has not yet begun to close the gap. Much of the problem these days is focused on the lack of affordable housing and urban infrastructure, scarcity of funds that would enable building, and difficulties of obtaining what few loans exist. This situation is not likely to improve until the CEE economies begin to grow again (as they have begun to do in countries like Poland, Slovenia, Hungary, Slovakia, and the Czech Republic²); housing shortages seem to be least in the CEE countries whose economies are most robust.

1. INTRODUCTION

In most countries of Central and East Europe the urban housing sector is economically important, accounting for 10 to 20 percent of total economic activity. In view of its implications for land use, energy consumption, waste generation, and water pollution, it also has a significant effect on sustainability of development (UNECE 1998a, p. vii). Thus, a prime development need in CEE, according to the World Bank (1996), is to improve the performance of the urban housing sector for:

- a) economic reasons: not only is a sizable percent of GDP generated by investment in the housing sector, expenditures for services to housing are also important, thus, management and performance of the housing sector have a major influence on overall national economic performance;

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² In CEE and the former Soviet Union, if 1989 GDP is given an index number of 100, 1998 estimated GDP is only 72. But in the Czech Republic it is 95, in Poland 117, in Slovenia 103, in Slovakia 100, and in Hungary 95. Meanwhile, the index number for Albania is 86, Bulgaria 65, Estonia 76, Latvia 58, Romania 76, Macedonia 58, Russia 55, and the Ukraine 37 (*Financial Times*, “Outlook Gloomy for Former East Bloc,” 16 April 1999, p. 2).

- b) social reasons: housing is a basic human need requiring a certain amount of government involvement when markets fail;
- c) environmental reasons: the integration of the economy and the environment must include the housing sector and related state and local decision-making in order to reduce the consumption of resources, especially energy, water, and land; and
- d) political reasons: success or failure in housing policy is directly felt by the majority of the population who tend to blame the government for shortages, lack of services, and other difficulties occurring in the transition process.

Privatization in the CEE countries transferred publicly owned housing from the central to local governments that, in turn, sold it to sitting tenants. Higher-income households were most able to take advantage of this situation and to receive the windfall profits the process generated through the heavily discounted sales pricing policies offered by government. Some poor households elected not to participate in privatization and to continue renting because they realized that they would not be able to afford the costs of maintenance, repair, and rehabilitation that ownership would entail. Problems of inequality are thus becoming more serious as privatization continues.

Meanwhile, rent controls for apartments still publicly owned were supposed to be lifted so that proceeds could pay at least for their management and repair, but groups of organized tenants are resisting the move in many CEE countries.

In some CEE countries the private housing construction sector has collapsed and lack of adequate housing is affecting provision of dwelling space for the elderly, the new migrants to cities, and young couples. Although unemployment is rampant in a number of CEE cities, lack of housing is hampering the mobility of labor to the larger and more economically robust cities, thus braking the industrialization process.

RADICAL PROCESS OR TRANSITION?

There is disagreement over how radical the privatization process in urban housing really is. Some would call the process of attempting to determine a new balance between government intervention and market forces a “transition,” but that implies a known end point or destination and these new governments cannot foresee the future except to say that establishing a market economy is the goal. Those who designate this change as a revolution probably over-state their case while those who regard it as evolution are victims of understatement. Strong, Reiner, and Szyrmer (1996, p. 237) believe the changes have been “tremendous” and “profound.” Douglas takes exception suggesting that the Hungarian term that translates as “change of system” is most appropriate (1997, p. 16). Yet in some CEE countries the change was more radical than in others. In Hungary, a slow movement toward privatization began in 1983 and could have taken place as early as 1968 when the private sector was legalized. For most countries in the region privatization in the urban housing market began in earnest after the 1989–91 period. This paper will refer to the ongoing process as “reform” and occasionally as “the transition.”

ORGANIZATION OF PAPER

This paper begins by (1) describing the urban housing model of the CEE countries before reform. It then (2) analyzes changes to that model that began with the privatization reforms in the early 1990s. The article then (3) details the strengths and weaknesses of the reforms and (4) suggests that there are some resource distribution inequities that are accentuated under reform. It (5) discusses the pricing issues in urban housing reforms as well as the financing of urban housing, and (6) briefly recounts matters related to mobility of labor, spatial issues of urban housing development, urban infrastructure, peripheral urban growth, and titling and property registration that have come about as state socialism is replaced by a more open market.

Four kinds of housing are referred to in this paper: (1) public rental housing, (2) private rental housing, (3) owner-occupied housing, and (4) cooperative housing. They make up the vast majority of urban housing tenure types in the CEE.

2. STATE SOCIALIST MODEL OF URBAN HOUSING³

The housing model adopted in CEE countries was derived from the Soviet model of state socialism, altered to take some account of local institutions. Under state socialism the central government provided infrastructure, acquired land and property, directly controlled and allocated housing, and managed price controls. It also was in charge of more indirect controls such as urban planning, setting building standards, writing and carrying out building codes, determining levels of consumer subsidies, and administering property taxes.

Hegedüs and Tosics (1996, p. 15) argue that under state socialism, with few exceptions, a common housing model developed in the CEE region and “[a]lthough each country had its own housing system, all showed the same signs of crisis [in the 1980s]. We believe that behind the very different East European housing systems there existed a common logic of housing policy, which has established the ‘rules’ of behavior of the state and private sector, the state institutions, and the various social and economic groups.”

One of the unresolved contradictions of this system was that in the effort to develop the economy, so-called nonproductive sectors involving consumption were held back in order to channel resources to medium-scale and heavy industry. One such nonproductive sector was housing. However, the model imported from the Soviet Union to CEE carved out social functions such as housing—with education, health care, and infrastructure—as a responsibility of the state. Wages were set low because social functions were heavily subsidized by the state. The costs of these social expenditures were often paid for with a tax or levy on enterprises, which was redistributed through the state budget.

Sometimes employers provided housing more directly. There were differences among countries on who paid the bill for housing, however. Hungary differs from countries like those in the former Soviet Union (FSU) and much of the rest of CEE in that its employers did not pay for much social housing. Hungarian enterprises sometimes made a lump-sum contribution to

³ This discussion draws heavily on Hegedüs and Tosics (1996, pp. 12–39).

workers' purchasing costs for housing, but these payments were modest in comparison to other housing subsidies that came from government (Pudney 1995, p.75).

In Slovenia before 1990s' reforms, financing was provided mostly from levies on firms' incomes or profit and on private savings and bank loans. Taxes based on the firm's total wage bill were proposed by the municipality and were based on the housing needs of the community. The firm retained part of the levy to provide for the housing needs of its workers. After reform these taxes were abolished and sales of rental property to individuals were expected to generate the revenue for new housing provision (Stanovnik 1994, pp. 2–3 of Internet version).

While demand for housing ran ahead of supply almost universally under state socialism, some countries like Hungary had managed to close the gap somewhat by the 1980s. By tradition, throughout the CEE region renters were almost never evicted. Furthermore, tenants' rights organizations were extremely powerful. The net result was that once a person secured a rental unit s/he had it for life. These rental contracts were often also inheritable. As a social function rent was generously subsidized by the state; rental payments often represented only 3 percent or less of a household's disposable income.

In state socialism, the market was replaced by central planning and a narrow political elite made economic decisions. In practice in the CEE region this system was often modified by pressures from groups, companies, or subordinate government institutions, which would then call forth a dialogue amounting to "plan bargaining." The bargaining and compromising often meant that the government had to make its policies somewhat more flexible and responsive to local needs than was its original inclination (Hegedüs and Tosics 1996, p 16).

Consequently, a housing model based upon exclusion of the market, omission of housing costs from income, and centralization of investment decisions was not realized in its pure form. After all, the government had inherited much of its housing stock from the pre-socialist era. While it was quite convenient to socialize large buildings, it was administratively not cost effective to privatize all single family homes that existed from before World War II. Besides, the political costs of this kind of complete nationalization would have been immense. Consequently, in nearly all countries a substantial owner-occupied sector remained which was particularly significant in Hungary, Bulgaria, and Slovenia. Where nationalization did not place, private economic and social relations continued to influence the housing system.

Since it was impossible for governments to monitor all private transactions, it elected to turn a blind eye to them. In practice, according to Hegedüs and Tosics (1996, p. 17), private transactions were not limited to the exchange of privately owned apartments: in many CEE countries cooperative or state-owned apartments were also involved in private transactions of one kind or another (like apartment swapping).

EVOLVING RIGHTS UNDER STATE SOCIALISM

It was also difficult for state socialism to exercise a monopoly in housing construction. Prohibition of private construction caused political tensions, so the authorities often indirectly influenced the building trades by limiting their supply of construction materials. In practice, however, construction was not easy to regulate and became part of the underground economy.

While in most CEE countries both the private and the public sectors were functioning entities, the market was muted and did not determine allocation decisions; rather, feedback to the system on allocation was supplied by growing political tensions. The changes in housing policy such as relieving controls, increasing housing construction, or increasing subsidies took place because of the mediation of political pressure (Hegedüs and Tosics 1996, p. 17).

Under state socialism property rights were not static between the end of World War II and the end of the 1980s; they were constantly evolving. This section discusses some important milestones in their development. Until the mid-1950s, the CEE countries were rebuilding in the wake of wartime destruction. Soon thereafter a reduction of private rights to land and housing occurred with more public housing rights being imposed. At this point there was a major divergence between the CEE countries and the Soviet model. Most CEE countries rejected the complete nationalization of land. Nevertheless, regulations put heavy restrictions on land use; for example, a 1963 decree in the German Democratic Republic (GDR) made it compulsory to obtain the permission of the local council for any activity that might be considered developmental. The councils were bound to grant such permission only when members were convinced that the transaction served the interest of the socialist state.

After the war a private rental sector remained strong in the majority of CEE countries. However, gradual extension of control by local authorities over renting, including rent levels and the obligatory accumulation of reserves for maintenance expenditures, severely discouraged investment in the rental sector. Nationalization of parts of the private rental market occurred gradually in CEE countries. Some individual dwellings that were privately owned became state regulated. In Bulgaria, for example, where owner-occupied housing represented a higher percentage of the total housing market than in any other CEE country, sales and purchases were strictly controlled and often prohibited. In Czechoslovakia, regulations were not as strict: when a privately built house was to be sold, the transaction was supervised by a government agency that weighed in with price suggestions.

In the 1947–1956 period economic development surged forward, usually based on heavy industries. The process created many jobs and generated significant population mobility that had to be accommodated with housing. During the 1950s the housing situation deteriorated as immigration to cities outstripped housing supply. At the same time, however, the government was not investing much in housing. The new elite and the working poor made up the most mobile groups. To supply the former group, the state commandeered dwellings of those who left the country after the war. Those pushed (or pulled) out of larger cities to go to decentralized industries in more remote town and cities vacated apartments which were then used by the elite. To accommodate those with housing needs, governments introduced new rules on space restrictions. In Poland, new apartments were supposed to be between 22 and 58 square meters in size; the upper limit was reduced to 44 square meters in 1959. Also introduced at this time in Poland were regulations mandating that surplus quantities of living space could be expropriated. Co-tenancies emerged at the time, with two families living in the space previously occupied by one family.

The CEE countries renewed their rhetorical pledge to solve the housing problems toward the end of the 1950s up to 1968 when a marked trend toward decentralization of government functions took place. Uprisings in 1953 in the GDR and in 1956 in Hungary were taken as serious warnings that the economic policy designed to hold back consumption was causing political tension. Optimistic predictions of upturns in the economy caused some CEE leaders to

promise more housing. Instead, however, the governments became more committed than ever to industrialization at all cost and continued to tightly muzzle consumption. In Hungary, for example, the government distributed nearly 4,000 building plots to alleviate political tension—and then withdrew construction materials from the market, preventing the construction of housing on them.

During the 1958–68 period housing cooperatives were either introduced or revived from an earlier period. Housing co-ops operated on the principle that consumers participate in financing new developments by making a down payment and providing a certain amount of self-governance even though the state ultimately provided and maintained the housing. Often members helped to construct the buildings. Hegedüs and Tosics (1996) believe that this cooperative movement represented a state-sector compromise with the private sector. The price of the cooperative unit, which was sold by state organizations such as savings banks or local councils, was standard, not varying much according to location. Cooperative apartments were allocated on the basis of waiting lists. In Poland and Hungary in the 1960s more people were waiting for cooperative apartments than for state-rented ones since many middle-income people earned above the income limits for state-rented housing. Supply of cooperative housing was limited by the amount of finance from state banks given to developers. Development and allocation of housing were under the control of the state exercised by local councils, state enterprises, or other state agencies.

In the late 1960s decisions were made to build large-scale apartment blocks, called “estates.” This construction, often on the edges of cities, used prefabricated techniques with financing from abroad as the CEE countries were gradually opening up to the West. Construction of these housing complexes began to grow rapidly in nearly all CEE countries. In Hungary prefabricated housing units were begun in the 1970s, while in Czechoslovakia they began much earlier. During the period 1969–80, in Czechoslovakia, the somewhat decentralized housing policies of the earlier period were recentralized. This new rationalization was consistent with the merger of industries, supposedly to realize new economies of scale, and the concomitant growth of government. It was through the newly centralized administration that government administered housing investments and subsidies. The motivation of this movement toward more centralization of government was an attempt to limit private construction as much as possible. In order to meet quantitative targets, the quality of new housing dropped as builders decreased quality specifications and government introduced new regulations mandating smaller apartment sizes.

The price paid by society for housing estates was very high. In the first place, demolition of smaller dwellings where the estate was to be built displaced many other smaller dwellings. The quality of the new units was often shoddy. Construction costs increased markedly due to the increasing monopoly power of the construction industry. It was estimated that the concrete, steel, and energy inputs for the construction panels would have yielded 70 percent more had traditional techniques been used. Also criticized were the materials used—they were not as impervious to cold weather as traditional building stock. Furthermore, the costs of shipping the enormous building panels from factory to construction site was high (Hegedüs and Tosics 1996, p. 30).

The CEE countries differed in the ways they absorbed this new policy of centralization. The GDR and Romania adhered slavishly to the policy and suppressed the private housing market with a vengeance. Hungary adopted a more liberal and relaxed alternative, allowing a broader role for private housing.

The late 1970s and 1980s were characterized by economic crisis. In the West the crisis had begun with the oil price increases of the early 1970s. By the end of the 1970s the petroleum problems began to plague CEE. Housing expansion stopped in all CEE countries and each had to decide how to cope with higher costs. Their decisions, in some cases, diverged quite markedly from the earlier “CEE model.” In the GDR, politics did not let the crisis affect the housing sector. It had a stronger economy and did not go into depression until the middle of the 1980s. In Romania, Czechoslovakia, and Poland, housing output was reduced.

In Hungary, in contrast, a series of reforms were adopted that gave more power to the private housing sector. As a result, the secondary economy, which was legalized in 1968, gradually turned into a legitimate private economy. The state restricted private participation in industry and commerce but permitted it in housing. The housing policy of 1983 gave up restricted control of the private housing market, withdrew some of the subsidy from the state-owned sector, and applied it to the private sector. This resulted in stagnation of building in the state sector and a short boom in private sector construction. Meanwhile, the elite was exerting pressures for more private participation in housing. It wanted to convert its state-owned apartments into private property at a subsidized price and, perhaps, trade up with the profits, an opportunity it did not get until the early 1990s.

Nonetheless, the deepening economic crisis of the 1980s ultimately caused all the CEE countries to drastically reduce their building programs. The poor and blue-collar workers suffered most, countering the benefits they had gained from the extension of the housing subsidy program to them during the housing boom of the 1970s. One of the features of the subsidy program was that subventions were often attached to different types of housing rather than to qualitative characteristics of the apartments or to the actual income of families. The very poor tended to rent state-owned apartments, precisely the units whose building was curtailed most drastically by the depression (Hegedüs and Tosics 1996, pp. 22–35).

Hegedüs and Tosics (1996, pp. 19–22) have pointed out that under state socialism, individuals who wanted access to housing finance had basically two options. Either they could work within the system (the voice option) or they could step out of the state sector and try to achieve their goals in the private or the informal or the black market (the exit option). Working within the system often meant renting a unit from the state. Indeed, in CEE a large number of institutions (such as local councils, companies, ministries, etc.) distributed housing and provided subsidies. A process of queuing—sometimes for years—was necessary to obtain an assignment to these dwellings because of the large gap between supply and demand. In some countries, a small amount of finance for new home construction was available through the state banking system.

In some CEE countries, the economy’s emphasis on production rather than on consumption meant that many households had forced savings, a source of demand that could not usually be satisfied with the limited supply in informal markets. These forced savings made the exit option possible. In Czechoslovakia, for example, sales and purchases of flats occurred, as did exchanges of apartments before the recent reforms. These transactions were subject to the approval of the local authorities.

One of the most typical ways of exercising the exit option was individual housing construction. Housing built for future sale (speculative building) was prohibited until the mid-1980s even though it was practiced. Individual self-building also existed in every CEE country.

Local councils controlled the building-materials trade industry in the 1980s. But while the state could restrict private housing construction, it could not prevent it completely. Building often took place on plots controlled by relatives. While there was a shortage of building materials, some leaked through state housing construction and others were available from demolition. Financing was provided through forced savings.

In summary, the performance of the socialist CEE model is characterized by:

- 1) inability to meet the demand for housing;
- 2) shoddy construction of state-owned units;
- 3) allocation of best apartments to the elite;
- 4) distortions in prices which are caused by the black or informal markets;
- 5) high cost and inefficient construction, allocation, and regulation;
- 6) deferred maintenance and rehabilitation; and
- 7) rents in state-owned apartments too low to cover maintenance and repair costs to say nothing of new investment.

A further derivative problem is one that Tsenkova calls “hidden homelessness.” In Bulgaria (and elsewhere in CEE) this shows up in large numbers of young couples living with their parents (48 percent in 1985) not to mention the 10–15 year waiting period to buy or rent in an urban area (Tsenkova 1996). In the Czech and Slovak Republics there are an estimated 200,000 sub-householders who would prefer to live in separate units but are now forced to live as a part of a larger household because they cannot find or cannot afford a flat of their own (Kingsley and Mikelsons 1996, pp. 187–188).

In the GDR at the time of reunification, Kohli and Kintrea (1996, p. 45) note that the cities were characterized by “very poor housing conditions, decay and a lack of amenities in the prewar stock, with cramped apartments in bleak and mostly under-maintained modern concrete structures—pre-unification estimates were that 700,000 dwellings out of about 7 million were fit only for demolition.” In Poland it is estimated that some 800,000 housing units should be demolished while 500,000 to 600,000 are in need of major renovation (UNECE 1998a, p. xi). In Hungary the accumulated backlog of deferred maintenance was 42 percent of the 1989 property value (Daniel 1997, p. 148).

CASE OF ALBANIA UNDER STATE SOCIALISM

Prior to 1990, Albania could be characterized as a county striving to achieve self-sufficiency through reliance on a command economy. Because Albania was the smallest and least populated country of CEE, and due to its besieged history, government under state socialism believed that only through self-reliance could the country attain autonomy. By the 1980s Albania was the most collectivized and government-controlled country in Europe. One of the few exceptions to the ban on private property was in housing, some 20–30 percent of which was built and owned privately.

During the days of rural collectivization, urbanization was slow. The proportion of the national population residing in town was 29.5 percent in 1960, and this figure grew to only 34.6 percent in 1987. Agriculture dominated the economy during state socialism, employing half of

the labor force. A system of internal passports helped to limit migration to cities, as did the spatial boundary placed on the growth of cities whose limits were known as the “yellow line” (Magnusson 1992, p. 13). The population growth rate in Albania under state socialism, however, was high: the natural rate of population growth was 2.1 percent in the 1980s. Consequently, the number of urban dwellers increased by almost a quarter over the 1979–89 period or over 110 percent since 1960, in spite of migration restrictions.

There were three kinds of housing property during state socialism: rented flats, privately owned family houses, and cooperatively owned flats. Most of the dwellings in urban Albania and on state farms were owned and built by the state or by voluntary groups; in villages individuals built their own houses. The voluntary labor movement began in Tirana in 1968 during the “Cultural Revolution.” The state provided building materials and specialists and those who were going to inhabit the housing units provided the labor.

The urban housing situation in Albania was arguably the poorest of all CEE countries governed under state socialism. The prewar buildings that survived were mainly owner-occupied row houses and single family houses without indoor plumbing. While some home ownership was permitted under state socialism, large dwellings had to be subdivided and shared with rental tenants chosen by municipal authorities. The apartment buildings that existed were expropriated and administered by the state as rental housing. Several thousand privately owned dwellings were confiscated for political reasons, but the government did allow a few hundred dwellings under strict regulation to be built each year for private use (Lowry 1993, p. 2).

During 45 years of state socialism, as urban population grew the state responded by building thousands of 5- and 6-story apartment houses that were managed as state housing. Some state-owned enterprises also sponsored cooperative dwellings for their employees; they were financed by bank loans to be repaid by tenants. Sometimes single family units were confiscated and demolished, making way for apartment estates (high-rise apartment blocks). Similar estates were built on the urban fringes as in most CEE and FSU countries. By 1989 the state owned about 22,000 residential buildings in urban areas containing over 200,000 individual dwellings. In addition, urban cooperatives and privately owned 1- and 2-family houses accounted for 54,000 buildings containing 86,000 dwellings. About 40 percent of the private dwellings and perhaps 10 percent of the public ones predated 1945 (Lowry 1993, p. 3).

Approximately 70 percent of all urban housing was state-owned by 1990 and occupied by renters. Government set rents at a very low level—rental income could not cover maintenance and repairs. Lowry (1993, p. 3) reported that “with the exception of a few villas built or remodeled for high officials of the government, the state-owned apartment blocks are the best urban housing in Albania. At the same time they are very nearly the worst housing in Europe.” Rent and utility expenses amounted to only about 4.5 percent of a typical family’s income. Income from one or two days of work was usually sufficient to pay the month’s rent. The payment made for utilities like water and electricity was largely symbolic. Eviction was nearly impossible—even if renters defaulted on their payments. Families were assigned dwellings in order of their priority on a waiting list.

The housing stock in urban Albania consisted of older buildings of brick laid in a framework of reinforced concrete with poured-slab floors. Some recent buildings were assembled on site from prefabricated, reinforced concrete panels. About half were built with volunteer labor under the supervision of state building authorities. The buildings contained 20 to 50 apartments.

According to Lowry (1993, p. 3), “They have received very little maintenance since their completion. Exteriors are badly weathered; entries and interior common areas lack the simplest amenities of paint, electric light, or regular cleaning. Approaches to the buildings are typically unpaved, muddy, and garbage strewn. To western eyes, many of the apartment blocks look uninhabitable.”

Over time there had been some improvement in Albania’s urban housing. During the 1950s a typical unit consisted of two bedrooms, a very small kitchen area, and an unequipped area plumbed for bathroom use. Apartments built in the 1980s consisted of one or two bedrooms, a general-purpose area used for a living room and for dining, a larger kitchen, and an enclosed area equipped with a toilet and shower. No central heating system was provided nor plumbing for hot water. Often there was a small balcony which tenants enclosed for use as another room. Each room usually had one electrical socket and an overhead light. In general apartments are small and crowded. After the collapse of state socialism, about 13,300 urban apartments were under construction and left unfinished. Squatters, usually those working on the building at the time, occupied those with walls and roofs. The others were abandoned to do-it-yourself builders seeking materials (Lowry 1993, pp. 3–4).

Since a high percentage of the population reach adulthood each year, housing did not keep up with demand during the days of state socialism. Several factors, however, dampened housing demand. One is the fact that families with only 1 to 2 people represent a small percentage of total households. In the rest of Europe these small households make up from one-third to two-thirds of the housing market. In Albania they make up only 9.5 per cent, mostly elderly people because in Albania young people usually live with their parents until they marry. Additionally, under state socialism single young people were not allowed to enter the housing market. In 1989, 18.2 percent of the families in Albania were made up of two couples living under one roof. This is in line with the tradition that the oldest son or daughter takes care of the parents and shares a dwelling with them. Even though family size decreased somewhat in the 1980s, household size seemed to be still about 6 to 7 persons by the early 1990s (Magnusson 1992, pp. 15–18). Nonetheless, as in other CEE countries, the combination of low rents, substantial subsidies, and a low level of housing construction was producing social and financial strains toward the end of the 1980s and the beginning of the 1990s (Sjöberg 1992, pp. 6–9).

From 1950 until the beginning of the 1990s the state distributed some loans for those who wished to build their own homes. Loans were also available for those who wanted to repair or rehabilitate their homes. New rules in 1990 allowed different loan amounts for urban and rural residents. Families living on state farms could get the equivalent of about US\$3,500, while those in urban areas could get US\$2,500. The subsidized interest rate was 6 percent and the borrower could repay over 20 or 25 years. Both types of loans are intended to cover not more than 50 percent of building costs. The informal economy was used to obtain a number of materials. Land availability for housing also rose: in the cities, 150 square meters were allowed; in the countryside, 200 square meters were permitted; and in mountainous areas, 300 square meters could be obtained.

In 1990 it was decided in Albania that housing prices should better reflect supply and demand and some subsidies should be eliminated. Agreements that would allow more self-building of flats by groups (cooperative housing schemes) were again encouraged. In 1992 the decollectivization process began and rural-to-urban migration sped up greatly. Much of the urban pressure today is in peripheral areas immediately adjacent to major urban centers.

3. REFORMS OF THE HOUSING SYSTEM: THE CEE MODEL REVISED

Recent changes in the CEE region have introduced a commitment to the free market and considerable deregulation in housing provision systems, accompanied by privatization of the state construction industry and a massive sale of public housing (Tsenkova 1996). The level of state ownership was different in each of the CEE countries so the privatization effort also varied. In Hungary the state sector accounted for 20 percent of housing stock in 1989, in Bulgaria 9 percent, in Poland 34 percent, and in Czechoslovakia 45 percent (Struyk, Puzanov, and Lee 1997, p. 1789).⁴

RETREAT OF GOVERNMENT

During the course of privatization, monopolistic state management agencies were often replaced by other entities such as competitive private organizations of management. In all CEE countries the privatization of urban housing and the retreat of the state from the housing sector in general has been considered positive and necessary (Douglas 1997, p. 16). What this has meant in practice is that there has been a general withdrawal of government from the production of subsidized housing and a relaxation of rental price controls as well as a government retreat from regulations over home ownership, private rentals, and nonprofit housing. But this does not mean that the government has left urban housing completely to the free market. In some CEE countries a few subsidies and housing allowances are still being given, but at a much lower level. Some governments are also better targeting them to groups in the most need.

Douglas (1997, p. 17) claims that the retreat of government from the housing sector is “one of the cornerstones of the whole transformational process... Even where the state has retained some responsibility for housing allocation, maintenance or management, this responsibility is being continually devolved to more local levels, public-private partnerships, or private companies and individual households.” The reasons for privatization seem to depend more on the multiple shortcomings of the old system rather than proven merits of the private system. Douglas argues that a two-track model might work better than the present directional shift of nearly 180 degrees to the free market. The encouragement, or at least not the discouragement, of public tenure that can compete with the private rental and owner-occupied tenure characterizes the model he suggests. According to Douglas, this model would have the potential to prevent market failure and such problems as speculation, extremely unequal distribution of housing resources, and the lack of provision of housing to the poor.

WHY PRIVATIZE?

Perhaps it was felt that a radical break with the past should be favored, but for whatever the reason, privatization that favored the free market was the chosen vehicle to establish the new housing system in CEE countries. The World Bank (1991) favors all-encompassing privatization and its opinions were crucial in the decisions of many CEE governments. Bank experts

⁴ In Russia, 79% of the housing stock in urban areas was owned by the state.

believe privatization is motivated by three broad objectives: (1) to increase economic efficiency at the level of the market, (2) to raise revenue for government activities, and (3) to improve distribution.

Moving from a planned economy, where housing was an underpriced, centrally provided commodity, to a market system, where scarcity of resources is reflected through price signals, has resulted in adjustment problems. New structures, institutions, and processes need to be put into place to organize and control the process of decentralized decision making.

The political results of privatization may be as important as the economic rationale. The process of privatization that makes some members of the working class homeowners can change class structure and class alliances; as workers become owners with property to defend, they may become more conservative in their attitudes and even their voting patterns. Furthermore, homeowners may be more motivated than renters to improve their properties when they realize they have a stake in the system being created.

STEPS TO REFORM

Banks et al. (1996) believe that the privatization strategies of a number of countries (they use the examples of Poland, Hungary, Slovakia, and Romania) in the EEC are similar even though there are always some country differences. This section will discuss three aspects of the housing reform process: decentralization, privatization, and deregulation.

Decentralization

The decentralization of housing, construction, and management involves the transfer from state to local government of ownership, management, and financial responsibility for the housing stock with a corresponding decline of central subsidies for construction, utilities, and management. Struyk (1996, p. 20) concludes of the process of urban housing reform in the CEE countries, "Possibly the clearest pattern across countries has been the twin development of early decentralization of the ownership of state housing from the national to the local governments and the enactment and implementation of privatization programs under which sitting tenants have the right to claim ownership of their flat at low or no cost." This implies, of course, the reallocation of costs (for operations, management, repair, and rehabilitation) to the local level. More importantly, the central government saw decentralization as a way to relieve itself of the onerous burden of subsidies, which it could no longer afford to pay. On a more positive note, when the responsibility of this sector is devolved to local authorities, a better match may be struck between services and consumer preferences.

Struyk (1996, pp. 20–22) believes that sometimes decentralization went too far. In Budapest the responsibility was devolved from the city level to the city's 22 districts, which resulted in different parts of the city having different policies on rentals in state housing and in the form of housing subsidy assistance to lower-income groups. There were instances of poorer people moving to the district with the more generous subsidies. To promote consistency some of this devolved authority was restored to the municipality.

Hungary and Slovakia were early starters. Hungary set the stage for privatization in its legislation in 1968 and 1983. Ownership of the stock was then transferred from the state to municipalities in 1991. This devolution was accompanied by a cut in subsidies for maintenance

and utilities. Slovakia took a similar path. In Romania, however, housing passed to sitting tenants without going through the local government. Housing subject to restitution is still under state control there.

In Bulgaria, the process again was somewhat distinct. The United Nations points out that its housing adjustment problems suffer from two major paradoxical problems. One is that the government has, during the transition process, withdrawn from most practical and economic responsibilities for housing. The second is that no delegation of authority from centralized state to local government has been made. The result is very weak or nonexistent political and administrative structures for the formulation and execution of housing policy at the local level. Local governments are limited to allocating vacant public housing units to households on a state-regulated waiting list (which contains 89,000 names) according to state-regulated criteria at state-regulated rents (UNECE 1996, p. ix). The Economic Commission for Europe recommends that the government of Bulgaria establish shared authority and responsibility for housing between the central and local governments (UNECE 1996, pp. x, 10).

Privatization

The privatization of housing in CEE has generally involved the transfer of ownership from local governments to the sitting tenants with a legally mandated right to purchase under favorable conditions—below market prices, small down payment, minimal interest rate, and long payback schedules. Furthermore, the functions of operation and management were turned over to the new owners. In some other countries, if sitting tenants do not wish to purchase, the local government may sell the property to another private person who becomes the renter's landlord. This also happens with restituted property which sitting tenants are not allowed to purchase.

Governments sacrificed a large amount of revenue by generously subsidizing the sale price of these properties. Typically, approximately one-fourth of dwelling units are in the state rental sector in CEE, and hence they represent a major asset to the municipal government, which in the transition is starved for capital resources. Receipts from sales might have been recycled back into housing or infrastructure, or to reduce budget deficits until a reliable tax system could be devised and put in place (Katsura and Struyk 1991, pp. 1251–73). Furthermore, there is the issue of equity: why should renters be singled out for generous subsidies that are not available to other citizens.

In Poland, privatization began in the 1970s. However, by 1988 local governments had sold only 5 percent of the state-owned stock. Privatization has continued at a modest but increasing pace with 13 percent of the stock privatized by 1994 (Banks et al. 1996, p. 139). The elimination of state construction and finance subsidies was replaced by a market system of finance that would encourage the growth of mortgage and construction finance (see later section on finance, p. 31) in the early 1990s (Banks et al. 1996).

In Slovakia, it is estimated that three-fourths of the state-owned housing stock will eventually be sold. Most local governments plan to retain 20–25 percent for social purposes. By the end of 1995, 10 percent of the stock had been sold. Most of the publicly owned stock in Romania was sold: 90 percent in most cities between 1990 and 1992. In the Czech Republic private ownership represented 60 percent of all dwellings in 1991. In Bulgaria, a country with widespread owner-occupancy before the present reforms, the comparable figure was 95 percent in 1993 (Strong, Reiner, and Szyrmer 1996, pp. 243–44).

There was sporadic privatization of public housing in Hungary previously but the process began to move rapidly in 1990. In January 1990 there were 721,000 dwellings in public ownership, 396,000 in Budapest. This represented 18.7 percent of the stock in the country and 46.6 percent in Budapest. By 1995, government had sold 500,000 rental dwellings. The vast majority of housing previously in public ownership will have become private property before 2000 (Daniel 1997, pp. 147–48). Some feel that in Hungary overprivatization of the state stock of rental property may be jeopardizing the vitality of the future rental sector (Douglas 1997).

Some students of the CEE urban housing market have urged that governments preserve a flexible and competitive rental sector. Rental housing gives some flexibility to the housing system. If there are too few remaining rental apartments, young families will have no place to reside until they can become owners, those moving into the city will encounter a housing scarcity, and the homes of the elderly will be jeopardized.

Households in Hungary reported two strong motives for buying: to acquire the value of the property—the difference between the value of the flat as owner-occupied and its value under the state rental system—and to obtain a secure position within the system when controlled rents would end. The control over maintenance was a less important reason for buying. Those who elected not to buy were motivated by two factors also. First, they lacked financial means, and second, they cited the rundown nature of the housing—its low value as an investment (Hegedüs, Mark, and Tosics 1996, p. 119).

A high proportion of existing housing stock was sold very cheaply in Hungary as in most of CEE. Apartment units that were renovated in the last 15 years received an 85 percent discount and those renovated between 10 and 15 years ago got a 70 percent discount. Besides, the installment contract is long—20 to 30 years—and a nonadjustable interest rate of 3 percent is offered.

In an effort to be more just and not to benefit only those who were renters, the Baltic countries accomplished privatization with certificates (vouchers) for which all households were eligible. In Estonia, for example, each family member is given voucher units in proportion to the number of years he or she has worked, time spent in professional schools or universities, number of children, and time spent in a Siberian detention camp. Each voucher buys 1 square meter of average quality housing space.

If the family does not have enough vouchers to purchase the dwelling in which it is the tenant, a government loan would be available at 17 percent. This is also a subsidized amount as inflation fluctuated between 30 and 50 percent in the early-to-mid 1990s. The need for loans should be minimal as the government has issued 40 million vouchers and the number of square meters of government-owned housing stock is 18.5 million. Should the vouchers not be needed for housing, they are somewhat fungible and may be used for buying shares in industry or a pension fund. The three Baltic countries are privatizing buildings without land, a problem that is likely to cause future problems with the formation of condominiums and with a new owner's sense of security (Turner and Victorin 1996, pp. 355–57).

In 1991 Albania joined other CEE counties in the transition to a market-based economy by privatizing state-owned properties. The effort was begun with the sale of retail store space, businesses, and vacant land. A law passed in December 1992 enables the occupants of most state-owned dwellings, both apartments and single-family houses, to claim ownership title to their dwellings by registering their claim with the district Banesi (state housing enterprise). And

1993 saw the beginning of a program of restitution and compensation of pre-state socialism owners of urban real estate and the privatization of state enterprises and business space.

Lowry (1993, p. 1) reports that the first dwellings in Albania were privatized in April 1993; by early October the occupants of more than 196,000 housing units—91 of the state-owned housing stock—had applied for titles of ownership and 139,000 had paid the requisite privatization fees. In Albania, state-owned urban dwellings were sold to their tenants for prices that varied with dwelling size and quality, but were only a fraction of potential market value. Those who did not live in state-owned dwellings were vaguely promised other housing assistance.

About 50,000 older and smaller dwellings were to be transferred free of charge. About 150,000 newer, larger, and better-quality housing units were transferred subject to a schedule of fairly nominal fees promulgated by ministerial decree. The fee could be paid in lump sum or installments over a term that was negotiated. Each privatized building was to be registered in the name of all the adult members of the household who are co-owners. For a dwelling occupied by more than one family, each family receives an undivided share in proportion to its share of the rental contract. When all tenants (whether or not more than one family) agree, the title can be registered as the property of one household head (Lowry 1993, pp. 5–6).

The land occupied by a privatized dwelling is also transferred to the new owners. In the case of a multiple-unit dwelling, only the site occupied by the building (its footprint) plus a border 1 meter wide will be transferred. This unit of land becomes the joint-property of the owners of individual apartments. In the case of a single-family dwelling that is surrounded by a garden that has been permanently used and maintained by the tenants, the garden is included in the transfer. An additional fee for the land is charged pursuant to a schedule of urban land prices set by the Council of Ministers (Lowry 1993, p. 6).

Owners of privatized buildings in Albania have the immediate right to sell, rent, or mortgage their properties but only those who have single-family dwellings will gain control of and responsibility for repair and maintenance (Lowry 1993, p. 5). The law on the privatization of state housing does not discuss the management of multiple-family apartment buildings expecting that the residents will work out among themselves how the building is to be kept in good repair and common expenses paid.

In some countries privatization programs moved more slowly than in others because of insecure systems of property rights, uncertainties as to the rights and obligations of ownership, the presence of nominal rents with secure tenure and strong tenant's organizations to enforce it, an undeveloped real estate market, and poor stock condition. The new owners, it was understood, would have to repair the buildings from their own incomes or savings (Banks et al. 1996, pp. 139–40). This cost, which might have been prohibitive for the very poor given the backlog of repairs that needed to be made, worked to deter some public renters from buying their municipally owned flats. Notably Poland, the Baltic Republics, and the Czech and Slovak Republics were slower to privatize their urban residential stock than Slovenia, Hungary, Albania, Romania, and Bulgaria.

Another aspect of privatization is the turnover of operation and management of the apartments to the private sector. In Romania since 1977 the state-owned housing stock has been managed by associations of tenants rather than by state (or now private) maintenance companies as in most other countries. The administrator of the association collects rent, mortgage payments,

and utility fees based on the proportionate space the owner or renter occupies. Capital repairs and routine management are made by contractors hired by the administrator and paid for by residents.

In the Czech and Slovak Republics, the old state management agencies were monopolistic, inefficient, and paid little attention to tenant complaints. Reforming them has been a popular theme among the region's local officials. One district in Prague terminated all of the functions of the state management agency and publicly requested proposals from private firms to fill the breach, fully aware at the time that no such firms existed. Firms were literally created overnight and ultimately 25 new firms answered the government request. Not all were qualified, but 19 were contracted to manage the 6,041 units in the district's social sector. After 6 months a formal review was undertaken and 3 firms were terminated because they did not perform satisfactorily. Fifty additional firms responded to the government's second request and the government picked 5 to be retained. District officials feel the experiment was successful in that these private firms proved to be more efficient than the state firm and tenants said they were satisfied with the services they provided (Kingsley and Mikelsons 1996, pp. 199–200).

In Hungary, prior to 1990, 36 large management companies operated 83 percent of the public housing stock. In 1990 the central state subsidy for management companies was eliminated and the corporate law required local governments to restructure their enterprises as joint-stock companies. An examination of these companies in 1991 showed that most companies had made streamlining changes to these organizations, including breaking them into several companies (Hegedüs, Mark, and Tosics 1996, pp. 123–24).

In Slovenia, there was a rapid privatization of management services. Prior to housing privatization, only a small number of local monopoly firms had been vested various powers by the owners of housing stock, be they firms, municipalities, or private individuals. These firms collected the rent and managed the housing stock. After 1991 the municipal maintenance firms were privatized and a large number of new firms emerged to compete for contracts with the older firms. An assessment of these new firms' performance remains to be done (Mandic and Stanovnik 1996, p. 165).

Deregulation

Deregulation of the nonprivatized rental sector includes phase out of rental control, institution of housing allowances, allowing prices of utilities and energy to rise, and diminution of tenant's rights (Banks et al. 1996, pp. 138–39). If rents cannot be raised, outside buyers will not have an incentive to purchase because they will not be able to realize a profit from the venture. Also if sitting tenants perceive that rents will be decontrolled, they may protect themselves by purchasing their dwelling.

There is still a substantial publicly owned rental sector in some CEE countries. Government generally maintains control of this housing. In Poland, however, local governments are allowing more autonomy. Where more local control is allowed, it is understood that rents will have to be raised so that maintenance and repairs can be covered. There is the feeling in some countries that if rents are raised tenants will not be able to afford them. In Hungary and Poland, a means test has accompanied measures to raise the rent. Subsidies and housing allowances are provided if the renters cannot afford the new rents. Slovakia is considering similar measures. Evictions in the case of rental default was difficult under state socialism because of the stipulation that mandated

the landlord to provide evicted tenants with alternative housing which must meet certain standards. In Hungary and Poland, alternative-housing provision is no longer required, and in Slovakia, standards for alternative housing have been lowered. Even so, tenant associations are often still strong and will presumably protest vigorously on behalf of a tenant threatened with eviction.

In Albania, as in most CEE countries, occupants of state-owned housing were not obliged to become owners. Albanian tenants were warned, however, that rents will soon be raised to cover the full costs of administering and maintaining the housing. This is reinforced by articles of the housing privatization law that state that rents for both state-owned and privately owned dwellings will be reviewed every six months and that rent controls on privately owned buildings will soon be abolished. Chances are that warning was an extra incentive for such a huge majority of Albanian renters to become owners.

Telgarsky et al. (1993) conclude that in Czechoslovakia tenants pay a very small fraction of their incomes for rent and at a level considerably below that needed to cover maintenance and operating expenses. Enormous subsidies need to be given to make up the difference. Since 1989, both of the republics have realized that rents will have to increase markedly if accelerated deterioration of these units is to be avoided.

While most poor people live in rental units in Czechoslovakia, richer families also rent and they could afford to pay higher rents without straining their budgets. Telgarsky (1993) and his colleagues analyze data that show that distribution of income in rental housing is very similar to that in the nation as a whole. These data reveal that 94 percent of renters could afford 100 percent increases in their rent without spending more than 15 percent of their income for rent. Housing subsidies would then be needed to prevent the other 6 percent from exceeding their budgets by 15 percent. The study concludes that it should be possible to increase rents to cover adequate building operation and maintenance while at the same time reducing government outlays for social housing. This argues for housing allowances that are strictly targeted at the poor and not simply and arbitrarily attached to certain kinds of housing units. Rent increases will be difficult politically, but if the public knows that only the rich—who have benefited from large and inequitable subsidies in the past—face steep increases, they may accept them. The general public is presently unhappy that renters receive so many subsidies not available to those who live in cooperative or family housing.

RESTITUTION AND COMPENSATION

Most CEE countries have allowed for the restitution of pre-socialist era urban dwellings to their previous owners. In principle, returning the property to former owners should be a simple and straightforward process. In reality, it is not. First, it is not always easy to establish what property was unlawfully taken. Second, deciding on the type and level of compensation to be paid to the former owner if the property cannot be returned—and if the property has been changed substantially—can be complicated. For example, some properties were farmland before state socialism and now they may be part of the city suburbs and dwellings may have been built on them. Land that has been transformed and cannot be returned may be eligible for compensation. Ideally, restitution should precede privatization. The matter of ownership should first be clarified. Otherwise privatization seems meaningless.

In Estonia, the process of restitution has been slow; former owners or their descendants have claimed more than 12,000 buildings; some 167,000 tenants live in them. Restitution cannot be made on all of them and that means that compensation must be paid on legitimate claims. In Estonia, compensation may be given as bonds, as privatization certificates (vouchers), or in cash. From the time of the restitution legislation in 1991 until mid-decade, 20 percent of claims had been paid. Part of the problem is that Estonia does not have a functional property registry.

The restitution process is likely to cause tensions between the new owners and renters. In Estonia, it is possible to evict tenants if it can be shown that the new owners need the building as housing for themselves. Or the new owner can find an alternative flat for the tenant. Theoretically, the restitution process does not affect the contract between the landlord and the tenant; in fact, it does. Legislated rents are so low that old restituted owners cannot make money on them. Sometimes the apartment needs so much renovation that the property may be a liability. While government has attempted to protect renters, new owners have every incentive to try to evict the sitting tenant. Tenants may be elderly people living on fixed and low pensions, just able to meet the highly subsidized rental payments each month. A study of what has become of renters in the case of restitution is needed.

In Latvia, the tenants are given seven years of security in the restituted building or the new owner has to find an alternative dwelling for them. When a restituted flat is vacated, the owner can sell it. Again, however, sales are discouraged in Latvia by the lack of a functional property register (Turner and Victorin 1996, pp. 351–55).

In Slovenia, in 1991 parliament passed the Restitution Act that granted private owners the right to property that had been expropriated by the socialist regime. The act included all kinds of property including 13,000 dwellings, and it provided that claimants or their heirs could exercise one of two options. They could either obtain the property itself or they could obtain state bonds that could not be cashed in before 2005. The second option did not work out well; most elected to be compensated in kind and not in bonds. Sitting tenants in a unit claimed for restitution have caused conflict. Giving the tenants recompense for moving out resolved some cases. But if the tenants did not want to leave, they were given a permanent lease and controlled rent, a situation anathema to the restituted owner. Purchase of the unit by the tenant was an option only if the restituted owner wanted to sell (for other renters of state-owned housing the option to buy was a right), in which case the government would pay the owner the difference between the book and the market value.... Most, however, did not want to sell the property to the sitting tenants. In response, feeling a sense of injustice, tenants formed an organization and appealed to the constitutional court. Making it possible for a renter of restituted property to buy the flat of another renter who decided not to purchase the apartment finally solved the issue (Mandic and Stanovnik 1996, pp. 165–67).

In the Czech and Slovak Republics, where the economies were somewhat more dynamic and housing problems were not as serious as in most of the CEE countries, restitution went relatively smoothly. Here also tenants who could not be easily evicted often occupied restituted buildings. Furthermore, rents are controlled at low levels. The newly restituted private owners are obligated to maintain buildings regardless of how much rent they collect. That so many have accepted their restituted property regardless of the fact that they will make few short-run profits reflects their optimism that market reform will soon be effective (Kingsley and Mikelsons 1996, p. 192).

In Bulgaria, restitution continues to be a subject of much political disagreement. During its brief tenure, the Union of Democratic Forces party succeeded in passing a restitution law for farmlands and for urban properties. In a few years the country was able to reconstitute over 56 percent of the urban structures and enterprises that were subject to valid claims. Because of the large number of owner-occupied dwellings prior to transition, the major problems of restitution lay in the agricultural sector where most properties were subject to such claims. Only 55,000 restitution claims were made in urban areas while in rural areas there were 1.7 million. Government projections that restitution would be complete by 1995 were not realized because of delays mainly due to judicial decisions on contested boundaries, delays in the issuance of titles, and government recalcitrance.

In urban areas of Bulgaria, restitution is provided if the property taken was a building and if that building still exists and is the same size as when taken or if the property taken was land and if the land is suitable for single-housing construction. The major difficulty with these legal provisions is the one that requires buildings to be the same size as when expropriated. Some buildings have been demolished and new ones now exist. In addition, the ownership documentation required is sometimes lacking. A later law was supposed to be enacted to provide compensation in these cases, but as of the mid-1990s no legislation had been issued on the subject. As of mid-1995, 63 percent of the housing claimed had been restituted. Tenants on restituted property were initially authorized to remain for three years, payments for rent now going to the private owner (at very low government-set rates). In February 1995, the right of tenants to continue to occupy their homes was extended another three years, but the constitutional court ruled this provision unconstitutional (Strong, Reiner, and Szyrmer 1996, pp. 41–46).

CONDOMINIUMS OR PROPERTY OWNER ASSOCIATIONS⁵

Experts in the field indicate that three legal issues are fundamental to operating a condominium or property owner association: all owners should be required to belong, the association should have the right to act as a legal entity, and registration procedures must establish title to the property and legal authority to the association. Without this framework the new owners would not have the financial, legal, and technical tools that are necessary for meeting the demands of joint ownership of an apartment complex. When property owner associations can act as a legal entity the association can assure its members that they have protected property and contract rights. As a legal entity the association can enter into contracts with service providers, pay common expenses, make binding joint decisions, and so on. In Hungary and Poland property owner associations are required in all privatized housing buildings. In Poland, however, it is not clear that property owner associations are legal entities. In Slovakia property owner associations are an option. The other option is that the joint membership of the building can enter into agreement with a private management company for maintenance services.

In condominiums in Hungary all maintenance or renovation work must be approved by a majority of the members. Decisions need not be unanimous except in buildings with fewer than six dwellings. There are many barriers to the renovation of a building. The obvious one is financing: it must be accomplished with the members' savings or from a loan. To obtain a loan

⁵ This section draws heavily from Banks et al. (1996).

each of the members must mortgage their own dwelling, so all must agree on the level of costs and be able to qualify for a loan. Because of low incomes, the elderly or the unemployed may not qualify for a loan and this might scuttle the plans of the entire project. These poorer households find it difficult even to pay the monthly condominium common expense fee (for heating, water, elevator, etc.). In addition to those who have financial problems, there will always be some who do not wish to participate in any type of rehabilitation program regardless of cost. In order for rehabilitation to proceed in these instances the local government might give some assistance. Or liens could be placed on the dwellings of these recalcitrant but financially able members and their monthly fee could be increased to reflect their portion of costs. Still others may have to sell out and buy more affordable housing elsewhere (Douglas 1997, p. 81).

Since nearly all residential buildings in Budapest are now privatized and under condominium law, a sharp increase in segregation by income group seems to be occurring. The majority of medium- and higher-income families' dwellings have been quickly privatized and most members have voted for a higher management fee. There is a tendency under this arrangement for poor families to be pushed out because they cannot afford the higher fee. While there is still a noneviction tradition in Hungary, the existence of the condominium law may lead to more gentrification in the future.

The issue of common expenses is a knotty one in Hungary. Newly formed condominium associations can vote not to have a fund for common expenses and previously organized condominiums can vote to do away with such a fund. A plethora of lawsuits exist against these associations, but presently a contractor who performs work for a condominium cannot collect from it if it elects not to pay. Contractors are now demanding their money up-front, the result being that a smaller amount of renovation is done (Douglas 1977, p. 82).

Registration of the condominium is one of the most difficult problems in instituting privatization laws. Two kinds of registration are needed to establish a functioning condominium: the first is registration of the individual apartments, each with its share of the common property, and the second is registration of the ownership association. The first is handled in the real property registration office or the cadastral office, and the second is usually under the authority of the court system. To register the property owner association, a special document called a charter or an association agreement is needed. This latter document is a contract among the owners setting out the rights and responsibilities of members and binding them to condominium laws. Even in the presence of a condominium law registration presents difficulties. In Slovakia there is at least a one-year backlog for registration. During the interim owners' rights are in doubt. Some questions that remain unclear are: Can new owners sell their flats? Do they continue paying rent to the municipality? The primary obstacle is the fee that may range up to US\$1,000 charged by notaries to authorize the registration documents. Legislation pending provides for free registration, but it is doubtful that the work of the private notaries can be dispensed with.

Most privatization programs in CEE permit individual units in multi-family buildings to be privatized—it is not necessary for a certain percentage of tenants in a building to apply for privatization before the process can begin. With the exception of at least the Czech and Slovak Republics, Poland, and Hungary, a property owner association (condominium association) does not need to be in place before sales can begin. The effect of unit-by-unit privatization is that new owners receive attenuated property rights: they receive the rights to dispose of their property freely but they do not receive control of the management of their building. Management remains with the state firm until an association of owners is formed. Shared ownership between the

municipality (of the units that have not been sold) and private owners tends to create knotty governance problems (Struyk 1996, pp. 26–27).

One problem is that while condominium laws are passed on a national level they are administered locally. There may not be shared interests between local and national levels on this score. Furthermore, local governments remain responsible for buildings that are unsold and apartments that have not been privatized. They are also responsible for those enterprises that do maintenance on the condominiums. The responsibility that the local government has in a building that is only partially privatized is often unclear.

Sometimes the condominium law provides guidelines in cases that a building has mixed ownership, but more often it does not. A major problem arises over what should be done if the owners get together and want to institute rehabilitation but the government does not have funds to contribute. Likewise it is often unclear as to whether the municipal owner is to pay the monthly condominium fee or contribute to the rehabilitation fees, and how many votes the municipality has when the association is making decisions.

According to the Estonian Privatization Act, any residential building with five or more owners shall establish a community of flat owners for “joint possession and usage.” The municipality will remain the owner of all unsold flats. Also provided is that the municipality will be a member of the association with only one vote (despite its probable ownership of more than one unit). One can easily imagine a situation in which a group of tenants, now controlling the majority of votes, is in a position to make financial decisions that will commit the municipality to a spending program for rehabilitation that it cannot and should not afford. While this accords with the cooperative principle of “one member one vote,” it is untenable over the long run (Turner and Victorin 1996, pp. 358–59).

Therefore, it is often in the local government’s interest to clarify the situation by privatizing as much of any given building as is possible, a step that often proves difficult, as some renters are wary of any new situation. In some countries municipalities are willing to give generous price discounts for the complete privatization of units in a given building. In Krakow a 90 percent price discount is given if all families in a building agree to privatize. Discounts of around 50 percent are given in Kosice, Slovakia, the exact percentage depending on the number in a building who wish to privatize (Banks et al. 1996, p. 145).

One of the consequences of the speedy privatization process in Albania is that buildings were privatized before condominiums were created. Under these circumstances the state was unable to establish the condominium because it was no longer the owner of the property. This difficulty was realized in mid-process and there was some sentiment for slowing or stopping the privatization process altogether until the condominium issue was settled. The Minister of Construction vetoed both options, however. He believed the issue could be settled after privatization was complete.

Presently, Albania still has to resolve the condominium issue. *Banesi* (the state housing enterprise) continues to be responsible for managing multiple dwellings even though it has inadequate funds to do so. As Lowry (1993, p. 13) has observed, quoting the law, “‘At the time the tenant signs the privatization agreement, he ceases to be a tenant and no longer pays rent.’ If this provision has in fact been noted and followed [the tenants who have privatized their apartments] have already been relieved of their obligations to the *Banesi*, and the *Banesi* revenues have diminished by 70 percent. Because no condominiums have been formed there

have been no condominium assessments and no provision for alternative management. This fiscal and managerial interregnum cannot persist without serious consequences.”

4. STRENGTHS AND WEAKNESSES OF THE REFORM

Enough time has not passed for a verdict to be written on the impact of housing reforms in CEE countries. Little material is yet available on the last several years of the decade of the 1990s. However, a few preliminary comments are in order. In the first place, the CEE countries are still going through a period of reform and transition, which should be viewed in many countries against the background of a poor macroeconomic situation. In many countries the transition seems to have compounded existing economic problems, whereas in the former GDR integration has brought about the outright closure of many state-owned enterprises with accompanying unemployment. The former GDR may be in better shape than most of the other countries, however, because of the funding and subsidies from the federal government. CEE countries with stronger economies such as Hungary and the Czech Republic are somewhat better off than most, but even there the living standards have not risen for the majority of citizens and have fallen for many, perhaps even for the mean- and median-income earner (Clapham and Kintrea 1996a, pp. 183–84).

HOUSING MARKET: ENGINE FOR GROWTH?

Of this ongoing process the question is sometimes asked whether governments used reforms to the housing sector as an engine to start up or accelerate other reforms or as a shock absorber to cushion the effects of other reforms. While there has been diversity in the sequencing of the reform process in CEE countries, as shown here, there are also similar patterns (Struyk 1996, pp. 55–58). But in the main, it appears as though housing was not an integral part of the economic reforms of the 1990s. Furthermore, despite the sector’s size in the economy and its inefficiency under state socialism, the reform of the housing sector was not regarded as an essential tool for furthering overall reform or complementing other reforms. Indeed, the sector absorbed massive budget cuts including the deficits created in savings banks by those countries which held fixed-rate mortgages as inflation rose. Struyk (1996) believes that privatizing industry and overhauling macroeconomic policy were considered to be much more important than reforming the housing sector.

Instead, housing reforms were done as a social palliative, at low cost to the new buyer. Most countries have thus fairly explicitly used the housing sector as a shock absorber, a way to secure one aspect of people’s lives that were changing in many ways caused by economic slowdowns, unemployment, shrinking wages, and rising inflation.

Regardless of how it was regarded by country planners, the housing sector’s dynamics have an important reinforcing or counter-cyclical effect on the rest of the economy. The demand for new construction suffered several heavy blows in the transition. State subsidies for new construction were either drastically cut or eliminated, and because of the erosive effect of inflation on savings and wages plus overall decline in the economy, the purchasing power of the population fell. Countering these forces was a large pent-up demand for improved housing by high-income households. Some of them had the needed foreign exchange to shield themselves

from the ravages of inflation (Struyk 1996, p. 29). Three countries—Armenia, Poland, and Hungary—tried under these conditions to sustain housing construction at a fairly high level, but all ultimately failed in the early 1990s.

CONSTRUCTION ENTERPRISES

Problems with slow or negative growth of industrial output have been mirrored in the construction industry. The result is a collapse of new construction in many of the CEE countries so that the acute housing shortages that already existed as a legacy of state socialism have not been ameliorated—indeed, they have worsened in the transition. Where sales of state-owned rental property to sitting tenants is accomplished at a deep discount, some believe that this lowered prices also in the private sector which may serve as a disincentive to investment in new housing. (Because of market segmentation, the veracity of the idea that the public rental market affects the new private housing market very much is open to some debate.)

Albania represents one exception to the rule that construction declined in CEE during the decade of the 1990s. The real estate market there developed significantly and the level of construction rose from 6.6 percent of GDP in 1991 to 11.4 percent in 1996 in an otherwise stagnant economy. In Tirana the construction market activity is highest of any city in the country. Indeed, based on building permits, 77.6 percent of the construction investment is located in Tirana. A land-use survey in Tirana indicates that 14 percent of the buildings were constructed from 1991 to 1997 while 65 percent were constructed in the 45 preceding years. The high pace of construction of the past decade is expected to continue until at least 2000 (Misja 1998, p. 63).

In the Czech and Slovak Republics, construction enterprises were all privatized. Before privatization, they were broken into smaller units; while in the mid-1980s there were 65 such enterprises, they were subdivided into 400 by 1991. At the same time many new private construction firms made an appearance. Estimates of the number of smaller construction firms registered as of mid-1991 ranged as high as 15,000, many of which were marginal operations. There is evidence that the remnants of the old state operations retained advantages over the newcomers, however. The older enterprises retain better access to supply networks and it appears that government contracting still works in their favor. Competitive bidding would level the playing field, but the practice has not yet been fully accepted (Kingsley and Mikelsons 1996, pp. 201–02).

SOCIAL TENSIONS, UNEQUAL ACCESS

That the initial enthusiasm for democracy and the free market has not been rewarded by a better livelihood has also brought about social tensions in some countries and caused a slowdown in some post-socialist reforms, among them the reforms of urban housing. The housing reform that has been most affected is that of the rental sector. According to plan, rents were to be radically adjusted upward, at least to cover operation and maintenance charges. Early hikes in rent that resulted in housing costs taking up a higher percentage of income, at the same time when income was dropping and inflation was increasing, created economic problems for some renters. Political objections were raised and these considerations were important for some retrenchment in this policy. Objections by tenants' associations are also instrumental in preventing rental decontrol.

INVESTING IN NEWLY PURCHASED PROPERTY

One of the rationalizations for privatization is that when citizens have a stake in the system that comes with ownership they are likely to maintain their dwellings in good repair. The sale of state housing to renters has resulted in some investment in the units, but apparently only those flats now owned by higher-income households with savings can be used for the renovation. Furthermore, these units may be resold in a process of “trading up.”⁶ It is in the economic interest of former renters to have their apartments in good repair. The phenomenon of richer people improving their dwellings is also evident in the rehabilitation of many villas that were built before the socialist regime.

Because they have fewer sources for financing, however, low-income new owners tend not to renovate. In Budapest, for example, poorer, low-income households often occupy older, lower-quality buildings or high-rise estates that are most in need of expensive renovation. Upper-class households are often located in newer, higher-quality buildings with lower renovation costs. Douglas (1997, p. 205) argues, “The simple conversion of public housing to private property [in Budapest] does in no way guarantee, or even increase the potential that renovation will be performed: in many cases it decreases the potential.” Under present economic conditions households cannot obtain significant financing, and legal aspects—lack of adequate condominium law, for instance—hinder the renovation process in some countries. Douglas continues, “Housing privatization and other housing system changes have actually exacerbated, not alleviated the problems associated with renovation, contrary to the initial beliefs and expectations of many.” Until problems of financing for renovation are dealt with adequately, ownership will probably not result in most owners being able to keep their homes in good repair. Without significant upturns in CEE economies, it is doubtful that finance problems can be solved. This paper deals in more detail with finance in a later section (see p. 31).

Clapham and Kintrea (1996a, p. 186) also observe, “It seems inevitable that the changing tenure structure will not obviate the need for state expenditure on housing repair in the longer term. Privatization may encourage households to use their own resources on their housing in contrast to the previous state-dominated system, but it seems unlikely that this will be enough by itself to deal with stock condition problems.”

5. DISTRIBUTION PROBLEMS

Szelenyi’s ideas on distribution are based on ideas of social exchange from Polanyi; he believes that state socialism is a social formation in which reciprocity, redistribution, and market exchange are integrated. He maintained that the distribution of public housing increases inequalities whereas the expansion of market opportunities under state socialism decreased them (Szelenyi 1978). Later Szelenyi modified his views by concluding that market mechanisms were not inherently more egalitarian than redistributive policies under state socialism (Szelenyi 1983). Bodnar (1996) believes that it is unimportant to focus on whether markets or redistributive policies are more egalitarian. There was inequality under state socialism (for example, renters

⁶ In some countries there are restrictions on reselling or there are incentives not to resell. In Slovenia, for example, a capital gains tax of 30% must be paid if the original owner resells the property.

received subsidies that nonrenters did not) and maldistribution is growing under the reforms in the housing market of the 1990s. The growing inequality may be due to the combined effect of the legacy of state socialism and the logic of the market (*ibid.*, pp. 618–20). Clapham and Kintrea (1996a) remind us that while there were low-income tenants, many tenants of state-owned property that was slated for privatization were quite well off.

A review of the literature has shown that distribution problems flowing from the housing reform process are numerous. During the first years of reform the process in CEE favored upper-income groups—those who rented the most valuable units—even more so than the rent subsidy under socialism. These better units promised the most lucrative return to local governments, which were now administering public housing and implementing the privatization process. These renters were allowed to purchase their units at highly subsidized rates, sometimes at only 15 percent of what a market assessor determined to be market price. There was great variation of sale prices within what should have been similar quality residences. Age of buildings did not seem to be taken as an important variable even though one-fifth of state rental properties were constructed in the last century and one-half before the Second World War. In sum, owners of best units were prime beneficiaries of the privatization movement and there was great arbitrariness in the sale prices of these units.

Owners of these most valuable units tended to have advantages that others did not. They lived in the best districts, recognized the opportunities which privatization afforded them, reacted quickly to legal changes, and had a good starting position in terms of education and higher incomes. Richer tenants were better represented through their tenant's union and were usually able to obtain more favorable prices from local governments than were poorer tenants.

Continuity prevailed as these privileges were distributed. Studies show that those favored by the ancien régime do quite well in the new system. Intellectuals and managers were privileged in the state socialist allocation of housing, and (in Budapest) Bodnar's work shows that they seem to be enjoying the bulk of today's benefits (Bodnar 1996, p.633). In other parts of the CEE, party members and skilled workers also received preference (Clapham and Kintrea 1996a, p. 186). Strong, Reiner, and Szyrmer (1996, p. 241) likewise conclude, "The former Communist managers and officials, commonly referred to as the *nomenklatura*, have continued to wield considerable influence not only in the political arena but also in the economic sphere, often behind the scenes and in transactions of questionable legality. As a result of the 'quiet' or *nomanklatura* privatization, by which people have transferred assets to themselves, the idea of privatization has been somewhat tainted." Likewise of Bulgaria, Tsenkova (1996, p. 4 of Internet version) concludes that transition to the market legitimized and reinforced the previous inequalities in housing consumption between city and countryside and among vocational groups with officials and technocrats at one end and blue-collar workers at the other.

In Hungary, a consequence of low-price sales of public rental property to sitting tenants is that the higher-income groups receive a relatively large one-time subsidy, which could amount to as much as 70 percent of the market value of the house. It is estimated that in Budapest upper-income groups received 40 percent of the total of this windfall subsidy, while lower-income groups have received only 17 percent (Douglas 1997, pp. 186–87, citing 1993 work by Hegedüs, Mark, Struyk, and Tosics). Douglas (*ibid.*, pp.72–74, 204) finds that in 1994 only 25 percent of the housing subsidization was reaching below median-income households in Budapest. Douglas (*ibid.*, p. 201) also quotes Kovacs as having written with prescience at the beginning of the transition in Hungary, "those who were critical of redistribution in an earlier phase of socialist

housing policy in Hungary must now realize that a shift to the market principle is likely to exaggerate inequalities, intensify segregation, and set more severe limits on mobility, both spatial and social.”

Results from Douglas’s own research show that “greater rewards of housing privatization have continually gone to households of a higher social status...these households have been able to hold on to better, more valuable, housing, in more desirable neighbourhoods, at relatively—and perhaps absolutely—lower prices. This corresponds to the research results of others, not only in Budapest, but throughout this post-socialist region” (Douglas 1997, p. 204).

Bodnar (1996) argues that in Budapest the privatization process, which offered many incentives for sitting tenants to buy, caused the accentuated maldistribution appearing after 1989. These incentives included low selling prices, the uncertain future for renting, promise of consistent rent increases, negative real interest rates, and low down payments. (New legislation in 1993 modified these advantages somewhat.)

Some in the CEE region who receive strong incentives to buy their rental units but who are not in the “top echelons” of income receivers find themselves with rising maintenance costs in addition to amortization and utility payments for which they are now responsible (previously the government paid for them). Their inability to afford these new costs may push the low-income group below the poverty line. Sometimes they have been known to request that the government repurchase their properties. In a case recounted by Bodnar (1966, p. 616), a request of that nature was rejected. As downtown areas modernize, commercial development, restitution, and luxury housing and gentrification generally displace poorer residents in the inner cities.

Pensioners who have very low incomes were not able to make even minimal down payments and may find themselves in the poorest rental housing without any opportunities for bettering their housing conditions (Strong, Reiner, and Szyrmer 1996, p. 244). The housing shortage problem may be even more acute for young couples and those new to the city (Struyk 1996, p. 28; Douglas 1997, p. 86).

Another inequity arises between those on the waiting list to receive their unit and those who already received one. With the fall in the production of state-built residences and substantial privatization, fewer units are available for those on waiting lists. For example, new construction in 1993 in Hungary was only half of what it was in 1988, and in Bulgaria and Estonia it was only 30 percent (Struyk 1996, pp. 28, 30).

Bodnar (1996, p. 634) concludes: “Privatization, while placing some in the ownership of great wealth, traps others in their very private misery and despair.” On the other hand, low-income families have not been completely shut out of the process. Clapham and Kintrea (1996a, p. 187) conclude, “The new reforms have meant that relatively low-income households...have been given control over a more marketable asset.” Those who purchased their units find that they have acquired a very marketable property. They are then able to parlay this transaction into even greater benefits by selling their old residence at market rates and, with these proceeds, purchase an even better, up-scale property

Modifying the present system will not be easy, but Clapham and Kintrea (1996a, p. 187) conclude: “In the past, high income groups have received subsidy, as rents have been well below market levels. Therefore, it can be argued that the windfall subsidy is merely continuing the previous unequal system. Nevertheless, it is possible to conceive of an alternative system ... with poorer households protected by a targeted housing allowance. In this scenario, subsidy would be

closely targeted on low-income households rather than on higher-income households, as at present.” Some countries have introduced housing allowances but they are, by and large, poorly targeted (Struyk 1996, pp. 59–60). Although many countries have discussed them, by 1993 only the former GDR had introduced a housing allowance which protects low-income families from large rent increases (Clapham and Kintrea 1996a, p. 175).

Another possibility (referred to earlier, see p. 11) is that instead of relying solely on a market characterized by government encouragement of owner-occupied tenure (through mortgage interest relief, tax write-offs for mortgage payments, etc.), another market should be created on a second track, characterized by social or public tenure. If this second sector remains reasonably healthy, it can handle some of the social housing issues as they arise and guide policy away from market failures that may cause homelessness and ghettoization. Douglas (1997) feels that it is unfortunate that the free market has been pressed on the CEE countries so enthusiastically without careful consideration of the positive role that government might have been able to play other than simply encouraging the private sector. Douglas (*ibid.*, p. 204) concludes, “What can be seen in Budapest is that this system of privatization has succeeded in creating a residualized state rental tenure and these remaining dwellings are increasingly concentrated in either older tenement buildings in the inner-city or large scale housing estates, mostly in peripheral areas. How to handle the housing tensions, and concomitant social tensions, that are developing in these increasingly run-down areas is left for the future.”

6. PRICING TRENDS FOR HOUSING

The most controversial issue in privatization is determining the price at which dwellings are to be initially sold. A low selling price (all other things being equal) will result in a higher number of sales, thus demonstrating a symbolic political resolve to create a market and give people a stake in that economy. It also absolves the state and municipality from caring for that housing stock. A large percentage of state-owned rental stock may quickly be sold off, but since prices are so low receipts to municipalities for these sales are reduced. Also the low prices at which sitting tenants purchase their flats provide a depressing effect on the private housing market. While rents remain below market levels,⁷ there is a smaller incentive for a private landlord to rent out his property, at least until rent controls are lifted (Clapham and Kintrea 1996a, p. 178).

Price information on the housing market is not widely disseminated and information on trends varies from country to country. At any rate, prices of real estate may accentuate or ameliorate the distribution problems discussed in the previous section.

In general, tracing out price patterns of housing resold in CEE after privatization is difficult because relevant data are often not available. In some countries registries are closed to the public. Other countries may have a high value-based taxation policy that encourages people to understate the housing price they put on the official record. In some countries the market is too thin to be able to correctly assess market prices of housing. It is clear that generalizations are difficult. Some countries show an initial price rise in housing that then declines when effective

⁷ For sales to rise, rents have to be increased on sitting tenants to provide an incentive to buy. Substantial rental increases have been introduced in some countries but have been restrained by a need to control inflation and to assuage complaints from the general public about falling living standards.

demand is filled. In other countries, prices remain high for a longer period for one reason or another.

Struyk (1996, pp. 33–34) notes that “what one can safely say is that nearly all countries experienced a spurt in the real price of new units when prices were liberalized, as households with money to spend sought to quickly purchase the small number of available units. After a year or two, as more units came on the market, especially thanks to privatization, the real price of new and existing dwellings softened, sometimes significantly.” For now, Struyk observes, prices have stabilized at a level that is still high by Western standards. Overall housing prices have exceeded inflation so that investment in housing is better than putting money into a savings account.

Douglas’s (1997) work agrees with that of Struyk (1996) and shows that for Hungary earlier surges in the real estate market were countered with declines in price after those with effective demand were satisfied. He shows that the real price per square meter of apartment housing in Budapest declined in real terms between 1990 and 1994 while private turnover of flats rose from 1990 to 1992 (this calculation excludes single-family homes) and then declined from 1992 to 1994. The decline after 1992 is due to the decreasing effective demand of the population; the latent demand for housing is still high. Apartments in desirable areas seem to have maintained their price better than flats in poorer areas. It appears that housing prices have fallen relative to income in a number of CEE countries as the decade wears on (Douglas 1997, pp. 87–88). This has occurred not because the housing shortage has disappeared—people still want and need housing—but increasingly they cannot afford housing due to inflation and declining real wages.

Strong, Reiner, and Szyrmer (1996, pp. 245–46) observe that in their anecdotal research prices for housing are from 3 to 5 times higher in major cities compared to medium-sized ones. In Sofia and Warsaw, median sales prices in 1993 were \$44 per square foot and \$50 per square foot, respectively. In some areas of the cities, the city center and luxury suburbs, for example, real housing prices will probably continue to increase; higher prices are paid for central locations and higher-quality space. The losers in Bulgaria, Hungary, Czechoslovakia, and Poland are those attempting to sell apartments in the concrete, prefabricated structures (estates) of the Communist era. Douglas (1997, pp. 89–90) concludes, “From March 1990 to March 1995...the nominal price increase has been forty per cent for Budapest housing estates and nearly 45 per cent for all flats. This also means that real prices have fallen more drastically in housing estates than in the market as a whole. This will not come as a surprise, as many housing estates in East European cities are, according to some, destined to be the ‘new ghettos’ for the ‘post-socialist underclass.’ Even in housing estates there is great price variation....”

The price for single-family dwellings (not included in the above discussion) increased in Budapest between 1990 and 1994: on average, nominal prices trebled while real prices increased by about 17 percent. Therefore, on average, single-family homes are holding their own against inflation and can be considered secure investments. Again, however, housing in the best districts made superior investments and if two of these “best housing” districts were omitted from the calculation the real price actually shows a 22 percent decline from 1990 to 1994. In these two districts, real estate prices rose 52 percent and 68 per cent. It is unlikely, of course, that these price growth figures will be sustained (Douglas 1977, p. 90).

The prices for housing units, one-family houses, and building plots have increased in Slovakia, particularly in Bratislava where average prices increased threefold in the first three years of reform. Here, demand has not fallen because of growing differentiation in incomes, the

increase in the number of people who want to invest in real estate, and the return of some wealthy émigrés.

Prices for privatized flats, apartments in cooperative housing, and flats in restituted buildings have been high in Estonia. A house in fair condition in the medium-low range cost the equivalent of 20 years of income for an average earner. Financing for such a unit simply was not available; but even if a loan at 5 percent could be obtained, almost the entire household income would have to be used just to pay the interest (Turner and Victorin 1996, pp. 349–50).

Currently the market for private rentals in Budapest is small, perhaps 2 percent of the housing stock. This stock is either lower-quality (though still expensive) units or high-quality expensive units usually rented to expatriates. The indigenous new rich prefer to buy rather than rent. Rents for private housing are probably 10 to 50 times higher than those for public-owned housing. In 1994 it was shown that the median rent of a public housing unit was 2.7 percent of median household income while the comparable figure in the private market was 36.2 percent. Those who must use the private market, such as young couples and new entrants to the city, spend a large percentage of their income for fairly low-quality accommodations.

In Albania, there is a staggering amount of building activity in Tirana and Durrës, and housing and rental prices are reported to be double those in other parts of the country, comparable with prices in capital cities elsewhere in the region (Stanfield, Childress, and Dervishi 1998, p. 15). Still, residential housing is scarce. In Tirana over the last 3 years, 50,000 dwelling units have been built—to house a population that has doubled in less than a decade—from 250,000 in 1991 to over 500,000 today (Moores and Flynn 1997, p. 2). Building activity in the rest of Albania is reported to be low (Stanfield, Childress, and Dervishi 1998, p. 15).

HOUSING PRICES AND ISSUES IN BULGARIA

As early as 1985, 84 percent of the housing stock in Bulgaria was privately owned and owner occupied as the state, unlike most other CEE countries, encouraged home ownership with subsidies and nationally controlled prices. Still the housing market was very controlled in that housing could not be sold or exchanged without the approval of the municipality; there was no resale market and the possibility of profiting from housing as an investment was eliminated. In a sense Bulgaria was favorably placed when the new free market rules were set in place in 1990. But economic conditions were so unfavorable that the shortage of affordable housing became a serious problem. At the same time, both rents and sale prices for housing increased. The affordability gap was so great at the beginning of the decade that only about 10 percent of households could purchase homes.

There are housing shortages of some 320,000 units in Bulgaria. Thirty percent of urban households were still on municipal waiting lists from the ex-socialist housing system at the beginning of the decade. Meanwhile, the public rental sector contracted from 16 percent to 8 percent of all housing units between 1989 and 1992 as units were sold to former tenants on favorable terms.

New housing output in Bulgaria reached its lowest level in 50 years in the early 1990s. Housing market activity then mainly consisted of transactions of high-income households involving purchase of a second house (when the restriction that a Bulgarian household could only own one house was removed as part of the reforms) and dwellings under construction. This

market is forged of a high-income group attempting to escape from inflationary pressure by investing in real property. Previous uniformity in price, characteristic of state socialism, is being gradually transformed into a system reflecting various factors—location, quality and size of dwelling, accessibility, technical infrastructure, and amenities in the community. In spatial terms submarkets are beginning to develop in various areas of cities. As a consequence, particular residential areas of Sofia are developing into high-status areas occupied by the privileged, while others will ultimately turn into areas of low-income housing (Tsenkova 1996, p. 4 of Internet version). In the past neighborhoods in Sofia had been more heterogeneous.

The price of housing in Bulgaria rose by 6 to 10 times on average in 1990 because of speculation. Equally dramatic was the rise in the price of land. Liberalized prices of building materials, fuel, and labor in February 1991 increased house prices by another 50 percent. In some urban markets 1993 housing prices are 60 to 90 times higher than 1989 levels (Tsenkova 1996, p. 4 of Internet version). It is rather clear that Tsenkova refers to nominal and not real prices in her study.

The United Nations Economic Commission for Europe (UNECE) reports that the housing sector has contributed to the slowdown of the recovery of the Bulgarian economy during the transition. Investments in housing as a share of total investment is considerably lower than in other reforming CEE countries. The main cause for the deficiency in investment in housing is the low level of profitability, together with high construction costs. Also to blame is the lack of mortgage credit (and credits for repair and renovation) that is especially exacerbated during inflationary times, and the government's indifference to the plight of the housing market (UNECE 1996, pp. x–xi, 1–2, 10–15). New housing construction and floor space per person declined markedly in the transition (*ibid.*, pp. 6–7).

While most indicators on the affordability of housing in Bulgaria have worsened significantly during the transition, average household expenditure on housing still does not exceed 10–15 percent of household expenses, far less than in most countries of Western Europe (*ibid.*, pp. 10–15). The policy of low rental rates for public-sector housing reduces resources needed for maintenance and repair of this housing stock.

A national housing allowance system targeted at the poor, is urgently needed, concludes the UNECE (1996, p. xi). Presently, the government seems indifferent to the homeless problem that exists in Bulgaria. The need for low-income housing has increased markedly during the transition period: at the time of the UNECE report, 88 percent of the population registered incomes below the calculated Minimum Social Standard and about two-thirds of the population had a registered income below the Minimum Living Standard. These dramatic figures coincide with the collapse in the construction of new public-sector residences during the transition (*ibid.*, pp. 10–15).

HIGH-PRICE VERSUS LOW-PRICE STRATEGY

The former GDR allowed some pilot projects to include the renovation of properties with federal government money before putting them on sale. Renovated properties were then sold at a higher price than the unimproved stock that could be purchased at low prices as in the rest of the CEE. The result is that sales have been slower. The high price does not necessarily mean that the income to the state will be greater than under the low-price option because the number of sales

will probably be much lower with many households not being able to purchase. Nevertheless, it could be argued that high price conserves rented housing. Some say that it makes more effective use of the housing stock. But adhering to a policy that directs housing to the affluent has important consequences for distribution. Nonetheless, some feel that the incentive to buy is stronger the greater the value of the house. Under the high-price option, owners will be able to retain less money to carry out further renovation and meet continuing repair commitments, but then repair costs are likely to be lower.

The former GDR is the only country to have adopted a high-price sales strategy. It was able to follow this strategy because of financing by the federal German government, which has allowed the maintenance budget of existing stock to increase. The sale of this repaired or even rehabilitated stock has been undertaken on a planned and long-term basis without the short-term rush in sales brought about by low prices. Sales amounted to 20,000 units in 1992 out of a stock of 2.8 million; there has been a fivefold increase in rents since unification (Clapham and Kintrea 1996a, pp. 178–79).

7. FINANCING URBAN HOUSING⁸

Housing during state socialism was financed by the government and by state industries; individuals contributed to the process with forced savings and sweat equity. As an example of the latter, labor was often provided by the family itself. Hegedüs and Tosics (1996, p. 22) quote Kansky, who summarized the situation in Russia as the CEE model: “The average private family house was constructed by using the family’s savings, ingenuity, labour and ‘do-it-yourself’ skills, and most leisure time, after purchasing, legally or illegally, the necessary construction materials. The general lack of housing materials on the market has contributed to purchases from the ‘black market’ and from government warehouses by the spending of Western currency obtained usually from relatives or friends living in the Western world.” He continues by observing that the family itself performed the largest amount of work. According to a recent survey, the family built about 30 percent of the least-expensive family houses with little help from professional builders. The services performed by professional builders were too high priced for an average-income family. Some aspects of sweat equity have been carried over into the reforms of the 1990s.

FINANCING IN THE FSU AND THE CEE COMPARED

Although there were common features, the CEE and the FSU countries entered the reform period with some differences in long-term lending patterns for housing. Among the shared features were a monopoly of housing finance by each country’s state savings banks and the use of fixed-interest loans. With fixed prices and little or no inflation, fixed rates in the realm of 2 or 3 percent were feasible. Loan periods were usually long—at least 25 years. Defaults were exceptional because banks could easily garnish wages in cases of nonpayment. On the other hand, in the rare case of default, constitutional provisions made eviction nearly impossible unless the lender could provide the borrower with comparable alternative housing. Because of this foreclosure problem,

⁸ The discussion on finance draws somewhat from Struyk (1996, pp. 34–43).

housing loans could not take the property as collateral. The loans were simple signature loans and not mortgage contracts. After the reforms of the 1990s, most of CEE still could not use property to secure loans.

The differences between the FSU and the CEE were in the volume of lending undertaken and the depth of subsidies associated with home construction. In the situation in which housing strategies attempted to gain maximum flexibility in the use of household resources, loan volumes were high. In other countries where the state desired to maintain the primacy of renting, central planners tightly controlled loans and loan volumes were low. The countries of the FSU and the former Czechoslovakia, according to Struyk (1996, pp. 34–35), fell into the second group. Examples of countries in the first group are Hungary, Poland, Bulgaria, and Slovenia. In these latter countries, various forms of down payments and interest rate subsidies accompanied high-volume, long-term housing lending. Albania seems to belong to a third category in which the state all but abandons the housing sector.

TASKS OF A HOUSING FINANCE SYSTEM AND PROBLEMS OF THE 1990S

There are three primary tasks of a housing finance system. One is financing the construction of new housing, which usually requires financing for a year or two. The second is providing long-term loans enabling individuals to purchase that property. The third is providing medium-term credit for rehabilitation purposes. To date, no county in the CEE except the former GDR (which can draw on the resources of the federal government) has been able to provide more than a smattering of funds for housing.

A major concern is that state financing available under socialism has ended and the private sector has not yet been able to take its place. Since loans for home purchase have been problematic, the sale of state rental housing (usually at a low price, with subsidized interest rates, and easy installments) is paid for from personal family savings. In some CEE countries given the forced savings from the years under state socialism (or accumulation of foreign currency), purchases of apartments from the state sector were simply paid immediately, “cash on the barrelhead.”

As forced savings disappeared or were eroded by inflation, financing became a major bottleneck for private owners and renters in CEE. Other factors were in play that caused a need for more borrowing than before: building materials rose in price; wages and salaries for the majority declined; prices for private dwellings rose; housing in the central cities became more costly as it was increasingly competing with new businesses; rents increased; housing subsidies began to disappear; and industry and the government got out of the housing business as repair, renovation, and maintenance became the responsibility of individuals.

During economic transition, prices that were formerly controlled were freed to some extent and a sharp surge of inflation ensued in all CEE countries. In response, the state savings banks raised their interest rates for borrowers and savers. The combination of falling purchasing power caused by inflation and dropping real wages and higher interest rates cut the demand for long-term housing loans. Furthermore, some state banks were not willing to extend new loans even at the higher interest rate. Loan volumes dropped precipitously from 1991 to 1994.⁹

⁹ Struyk (1996, p. 36) includes a graph showing this trend for Hungary, Bulgaria, and Slovenia.

PROBLEMS WITH OLD LOANS

During the transition, state banks also grappled with loans acquired under state socialism. To cope with these old loans, banks usually raised the interest rate to borrowers or made a deal to prepay old loans at some discount. Slovenia was an exception and attempted to retain low interest rates, realizing enormous losses on its outstanding portfolio as a result. Hungary protected its old loans better than most. The government gave borrowers the choice of paying a higher but still below-market interest (which would in the future be adjustable to market conditions at the discretion of the bank) or repaying the entire loan with a 50 percent discount on the outstanding principal. About three-quarters of outstanding loan balances were paid off in this way.

NEW HOUSING LOANS

Many bankers became wary of extending new housing loans after their money-losing experience with old loans. As a result countries like Poland, Slovenia, and the Czech and Slovak Republics began to innovate in financing policy. For example, Poland adopted a dual index mortgage in 1992. Borrowers' first payment is calculated at the level of the current inflation rate and then each additional monthly payment is adjusted according to the index of wages. Also foreclosure and eviction were reinstated in Poland. Meanwhile, Bulgaria and Estonia have not reformed the banking system and Hungary has retained its state savings-bank monopoly and made modest changes in policy.

The World Bank concluded that in Poland while housing was not a political priority during the early 1990s, in 1993–1994 the government realized that lack of housing was a major brake on economic development. To indicate its importance, in 1997 the housing sector was put under the prime minister's direction. Even so, financing was still a scarce and critical ingredient. In particular, improved financial instruments were needed to accomplish three tasks: (a) investment in maintenance and repair of the existing housing stock; (b) financing of new municipal rental housing; and (c) a more efficiently targeted housing allowance system. The most pressing target, a World Bank study concluded, was the first. Investment in the existing stock would be least expensive on a per capita basis and it could also contribute to energy conservation and environmental improvements (UNECE 1998a, p. x).

Financing for the development of the housing market is seen as critical in Slovenia, but few changes have been instituted. Before reforms state sources were responsible for one-half of all housing investment. It is clear that money will no longer be raised from the net income of the state-run enterprises; it will be raised by local taxation on personal income and private property. The new system of municipal taxation is not yet in full operation (Mandic 1996, p. 166). In Slovenia a simple variable interest rate is still used,¹⁰ but very few loans have been given out, and the mortgage contract is not used (Struyk 1996, p. 39). The private sector has not responded by providing low-cost capital in a way that would displace the former public sector. There are no home-savings banks, building societies, or cooperative banks in Slovenia (Mandic 1996, pp. 164–65).

¹⁰ In 1994 the annual interest rate was the inflation rate plus 12%.

After the commencement of public rental housing sales in Slovenia in October 1991, there was a housing rush in which one-third of the social housing units were sold by the end of March 1992. If buyers could pay immediately in a lump sum, they would receive a 60 percent discount in the asking price. Most buyers preferred this option. It also would have been possible to arrange a 20-year payment period with low interest rates, but purchasers did not have enough faith in the government to buy under this option. They were afraid that the government might raise the rate sometime in mid-course, making the terms more stringent. In order to encourage sales, tenants were allowed to use their foreign-currency savings deposits in commercial banks that would be converted to local currency at the official rate. Local foreign-exchange accounts were frozen at the time save for this exception. Most buyers did not use this option either: they apparently had hidden savings of foreign currency—at home and in Austrian banks. These savings were rewarded at the time of exchange by financial institutions with a premium of some 10 to 15 percent over the official rate.

Under the system of state socialism in Czechoslovakia public resources were allocated to finance house construction through the Complex Housing Construction System. The system has carried over into the reform period, but today finance from this entity is available only for work on unfinished buildings. New legislation identifies support for housing construction as a crucial task for national, regional, and community authorities. It also requires that housing opportunities be provided to low-income households, but in the main it aims to strengthen personal responsibility to solve housing needs. State support is provided through grants and by indirect means such as tax rebates and preferred loans. The legislation is also designed to support the construction and modernization of related infrastructure. A specialized finance institute is contemplated to support the construction and modernization of housing. But the development of all of this has been curtailed or delayed because of limitations on the state budget.

The enabling legislation for a home savings scheme came into effect in 1992 with the opening of the first Slovakia home savings bank. This bank provides some contributions and institutional savers are given preference to receive building loans (Michalovic 1996, pp. 146–47). In the Czech and Slovak Republics, a contract savings scheme was introduced in 1993 with lending rate at 6 percent and savings rate at 3 percent. The scheme is highly subsidized. The contract lending of these sister republics is essentially a closed system where savers borrow back from themselves. In a closed system it is possible for loans to carry a low interest rate, which is financed by a low rate on savings. The savings balance will be eroded if there is much inflation, so this kind of system is possible only when there is a fairly high level of price stability. The system had about 485,000 open accounts in the Czech Republic and about 200,000 in the Slovak Republic by the end of 1994, but neither had begun their lending program (Struyk 1996, pp. 37–41).

In Hungary, the State Savings Bank still maintains a near monopoly on lending. The adjustable rate mortgage was introduced in 1994 but has met with limited acceptance. Borrowing remains subsidized and foreclosure procedures have been somewhat streamlined. The Deferred Payment Mortgage offered by the State Savings Bank is designed to maintain affordability in an inflationary environment. This instrument (supported by USAID) allows repayment at a much lower than market rate, increasing the affordability of the loan but decreasing sustainability of the program after international aid stops.

In Bulgaria, inflation and monetary reforms have affected the housing finance markets unfavorably. The State Savings Bank is the only source of short-term construction loans to

public and private developers and long-term construction loans to housing cooperatives and homeowners. Apart from high interest rates, the State Savings Bank offers a substantially lower construction credit or mortgage amount than is needed to cover the actual cost of housing, further discouraging borrowers.

In general, privatization in CEE had two important effects on long-term housing credit:

1. In countries that charged a nontrivial price for state-owned housing, local governments sold them to individual buyers usually with a highly subsidized interest rate. Since the local government owned the unit, it did not have to advance money to the tenant. The tenant could buy now and pay in installments. This lessened the pressures for long-term loans.
2. The local government endowed those privatized units with substantial instant equity. The new owners could immediately turn around and use this equity to purchase upgraded units.

In Albania, for example, there is a demand for up-scale properties in major cities like Tirana and Durres. Buyers are generally urban residents seeking larger living quarters for their extended families. Sellers, on the other hand, tend to be owners of older apartments requiring investment, persons willing to sell their restituted real property, or emigrants who have left behind their property. Lack of financing is a major constraint in this property market. Perhaps the greatest constraint is the absence of a mortgage market. All banks suspended residential mortgages in 1996 due to high default rates. High rates of default have been complicated by difficulties enforcing foreclosure and eviction against mortgage defaulters. In addition, interest rates are high. The vouchers that were given for enterprise privatization,¹¹ which are now selling as low as 10 percent of face value, have proved the most straightforward manner of paying for residential real estate (Moores and Flynn 1997, pp. 2–3).

Another gap that exists in CEE is the one in lending for construction. In the pre-reform period, financing came from three sources: the state savings bank, the country's budget, and personal savings. In the 1990s, government funding for construction disappeared except for the military and a few other special groups. Equity financing is now the major source of funding for construction. Seldom does one investor have all the needed funds for a project. This has spawned a variety of schemes from simply paying in advance to more elaborate arrangements. Sometimes investors build a home that they could occupy if need be, selling their interest to an investor or homebuyer when the unit is complete.

Even though programs for increasing the financial flows to the CEE urban real-estate sector have been largely stymied in the 1990s, the institutions that will facilitate financing in the future are beginning to appear. In addition to private banks, real estate agents—a profession that did not exist under state socialism—have begun to emerge to facilitate housing transactions. Real estate advertisements have begun to appear in the Hungarian press, for example. In Bratislava (Slovak Republic), 37 real estate firms were operating at the end of 1992. As of the mid-1990s there were 400 realtors in Sofia and 1,500 throughout Bulgaria. The 25 larger ones have computer listings and share some information on sellers but not on buyers or purchase prices. One weekly newspaper is devoted solely to Sofia-area real estate for purchase or rent. While there is much available information on asking price, details of actual purchase price and rental prices are very limited (Strong, Reiner, and Szyrmer 1996, pp. 68–69).

¹¹ In Albania, as in other CEE countries, individuals received vouchers when state enterprises were privatized.

In Albania, it is somewhat surprising that there is so much market activity in real estate given the low levels of security and financing and lack of real estate agencies. A recent study found ten agencies in Tirana dealing full-time with real estate, employing a combined total of twenty to twenty-five people. Only two or three of these have “consolidated their position in the market.” The others do not represent significant investments, lacking office space, automobiles, and even telephones. Only the top five are specialized; the rest combine real estate with import-export trade, tourism, and other services. There are only three or four agencies outside the capital. The study observes, “Cities of comparable size to Tirana in other Central and Eastern European cities average twenty to thirty agencies each employing fifteen to twenty agents” (Moore and Flynn 1997, pp. 4–5).

TAX INCENTIVES

While many of the subsidies and allowances that enabled families to purchase homes or flats have disappeared or are in the process of drying up, some CEE countries have begun to include incentives for adding to the housing stock in their tax systems. In Poland, for example, the personal income tax, introduced in 1992, includes a deduction for investment in housing. Specifically, the provision allows deductions for: (1) purchase or acquisition of a building lot, (2) purchase of a new dwelling, (3) construction or extension of a private flat or house, (4) construction of private tenement buildings, and (5) repairs and improvements to a dwelling. Ceilings on deductions are set annually according to the level of construction prices and tax rates. In 1993 the amount of lost taxes due to these deductions was estimated at 5 to 6 percent of the total tax revenue from the personal income tax.

DOES OWNERSHIP FOSTER INVESTMENT?

A major finding of the Douglas (1997) study is that because of a lack of financing, private ownership in Hungary did not lead to more investment in dwellings for purposes of renovation. In the former GDR, in contrast, where funds were made available from the federal government, renovation of the rental housing stock prior to selling is taking place and improvements are also being made by the tenants-cum-owners. No other country in the CEE has had the financing advantage enjoyed by the former GDR, however. The former GDR was also helped by its incorporation of West German law that included an extensive body of condominium law missing in much of the CEE (Kohli and Kintrea 1996, pp. 41–55).

8. PHYSICAL CITY SPACES

City centers in the CEE region that had not been destroyed in World War II ceased to develop under state socialism. There was almost no incentive to build new headquarters, hotels, banks, department stores, and the like. Lack of investment contributed to the stability of the physical settlement patterns and meant that at the end of the 1980s the center of Prague, for example, looked much the same as it did a half-century before. At the edge of cities in most of the CEE countries, however, from the 1960s on the construction of housing estates changed the way the periphery of cities looked.

Musil (1993) maintains that the redistributive aspects of state socialism, the absence of a land market, and the decommodification of the housing market had the following effects on city settlement patterns:

- ◆ In the city centers, there were fewer functional and physical changes than in cities of similar size in non-socialist countries.
- ◆ Housing estates were substantially larger than apartment complexes in capitalist countries.
- ◆ Fewer people proportionally lived in capital cities in socialist countries than in capitalist ones; on the other hand, there were more people proportionally living in medium-sized cities in socialist countries.
- ◆ Larger cities seem to have less effect as “growth poles” on the medium-sized cities around them in socialist countries when compared to capitalist economies.

Musil (1993) also contends, however, that there were some similarities between capitalist and socialist cities. In both, a certain amount of social segregation took place, although the role of socioeconomic status was less pronounced under state socialism than it was in countries with market economies. Elderly people and low-income families were more concentrated (or trapped) in deteriorating city centers in countries under state socialism than in capitalist countries.

In general, the central city in CEE under state socialism suffered from a lack of infrastructure and housing maintenance. In Budapest, for example, this contributed to the out-migration of higher-income families from the inner city to suburbs. In 1990, one-fifth of the residences in Budapest were only one room and 12 percent did not have toilets inside the dwelling. Usually there was a communal toilet on each floor. These figures rise to 45 percent and 30 percent, respectively, in the inner city. In some inner city areas, 40 to 50 percent of dwellings suffered from major deferred maintenance. It has been shown that if Western standards applied, an estimated 30,000 dwelling units in the inner city would have been condemned while around 110,000 units in Budapest are in urgent need of repair. Meanwhile, there were high population densities in the inner city area, many parks in the inner city were destroyed, transportation was less accessible, and crime rates were higher at the beginning of the 1990s (Douglas 1977, pp. 65–67).

Revitalizing inner cities has been on going for a decade or more and now inner cities—especially in Budapest and Prague—are attractive locations for new business. This change implies a gradual conversion from residential to office buildings. Luxury shops for tourists and banks are replacing old retailers and other firms or residences. Some new shops have international connections. The prestige of high-rise apartments for residential purposes is declining, though some apartment upgrading in the downtown area is also occurring. Pichler-Milanovich (1994) observes that before 1989 property in inner CEE cities was mostly owned by the state. Despite a building boom in downtown areas there is still a scarcity of offices in Budapest and Prague. Shortage has led to property prices comparable to West European capital cities. Many new firms are buying recently privatized flats and turning them into commercial space even though law prohibits this action.

In CEE more generally, population density of inner cities has been declining since the mid-1960s. The population loss was accentuated in the 1980s. Despite population loss, the residential populations of inner cities has been substantial until recently. But private developers operating in the inner city are now concentrating on the housing needs of higher-income people. So

revitalization tends to lead to gentrification and the process is displacing poor people who have no place to go, a trend expected to continue. A social policy that will ameliorate this situation is needed. As CEE capital cities begin to compete with the capital cities in West Europe, the polarization problem will probably be accentuated.

Pichler-Milanovich (1994, p. 8 of Internet version) projects these influences into the future: “There will be less equity in living conditions, common interests will disintegrate, and social variation and conflicting interest will grow. Occupational pattern will change. New social groups will emerge. The changes that can be expected in central and east European capital cities could be much more profound than those observed in western European cities in the 1970s and 1980s. Social polarization could have inevitable consequences for the geographical pattern and development of the cities and urban regions.”

With the development of the market economy after 1990, urban areas in CEE countries are displaying some of the following changes:

1. Urban centers have begun to revive and respond to increases in tourism. There is also a trend to locate shops with specialty or luxury goods in the downtown areas. Foreign owners usually want to establish their businesses in the city center. There is also a boom in hotel building. All of these do not bode well for the poor and elderly who often had apartments in the central city and now have to move out because of rapidly rising rents and gentrification.
2. Outside of the central city, suburban housing areas have begun to develop. More heterogeneity between neighborhoods is appearing in the new housing stock to reflect sharper differences in socioeconomic status.
3. New patterns of social segregation are developing and it is likely that different areas of the city will become more socially homogeneous neighborhoods.

In the future there will probably be a larger concentration of people in central cities and a higher rate of migration from both the countryside and the medium-sized towns to central cities with the development of the market economy. The reasons for this central city boom include the growing number of jobs in service sectors located in large cities, the importance of the communications industry (in which there are substantial economies of scale), and growing international businesses that gravitate to large cities.

Because of this growth in primary city size, in CEE there is renewed interest in regional planning. In Poland, for example, the new market economy requires corresponding changes in the planning framework. New principles, consistent with the market framework, need to be adopted for the management of spatial development. Continuous adaptation will require a precise definition of public responsibilities and interests, and regulations to protect those interests. Concomitantly, in view of the diversity of private-sector interests, an effort should be made to provide a favorable environment for the mobilization of private capital, investment, and labor. Planning will also be expected to mediate in cases of conflicts on the spatial developments of the urban economy and to facilitate the efficient operation of land and property markets (UNECE 1998b, pp. 30 and 61–69).

9. URBAN INFRASTRUCTURE

In the CEE countries, lack of sewer systems is relatively common, and not only in rural areas. In 1994, in 12 CEE countries only 65 percent of dwellings had piped sewers while 83 percent had piped water. Serious pollution occurs when dwellings have piped water but no adequate sewerage system. There are exceptions, however. In Romania, for example, in four of the country's largest cities about 92 percent of the inhabitants have access to both piped water and a satisfactory sewer system. In CEE generally, repair of many sewer and water systems was postponed during the collapse of state socialism and the transition; they now need attention.

Roads have also been widely neglected in the CEE region and this is an especially severe problem given the opening to the West, which has brought a serious problem of automobile congestion to urban areas. Rail transport has traditionally been the dominant form of transportation in the CEE, carrying, in 1990, two-thirds of goods compared to one-fifth in the EU. In Romania road transport rose 50 percent between 1990 and 1993. The number of cars in Warsaw rose from 210 per 1,000 inhabitants in 1990 to 312 in 1992. Numbers of automobiles in CEE since that time have continued to rise at an impressive rate, while urban highways have not kept pace because of a systematic lack of investment in them. The Economic Commission for Europe concludes: "The quality of the roads [in 1990] was generally poor in all countries of the region; very few roads had been built to motorway standards. For the most part, rail and road corridors run parallel and link together the major centers in eastern and central Europe but, at least in 1993 they were in great need of modernization and extension. Modernization has begun and in some countries such as Hungary and Romania, is well under way. The estimated needs are enormous, however, and total costs have been projected to be very high" (UNECE 1998b, p. 22).

The infrastructure of telecommunications is also poorly developed. Much has been achieved for businesses and public authorities if not for private individual households. The gap between Hungary and the western industrialized countries, for example, should be closed by 2000, estimates the UNECE, and regional disparities in telephone connections reduced. In Romania, telecommunications are also receiving priority treatment (UNECE 1998b, p. 23).

In a study of Tirana, Albania (Driscoll, Ersenkall, and Iadarola 1994, p. 12), water, sewers, and roads were mentioned as priority areas for infrastructure improvement. Presently, the existing sewage system is inadequate and there are no treatment facilities. As the city grows the ability of the existing system to accommodate increased flows is increasingly called into question to say nothing about the peripheral development that is not served by the existing city system at all. In terms of roads, the Driscoll, Ersenkall, and Iadarola study (*ibid.*, p. 13) recommends the widening of the main route between Tirana and Durrës (the nearest port city), which has begun, and a new road to create a more direct link between Tirana and Rinas airport.

10. THE CITY'S PERIPHERY

Little is known about peripheral settlement in the CEE countries; they have not been studied in much detail. Likewise, students have neglected the peripheral economy that is gradually becoming legitimated. Development of housing on the periphery has occurred during socialist and post-socialist periods. Beginning in the early 1990s, significant rural-urban migration, a shortage of urban housing units, and an inadequate urban planning policy have resulted in

significant land invasions on urban peripheries. Whether squatter settlements are accompanying the housing reforms of the 1990s is a matter for further study in the various CEE countries.

SOCIALIST HOUSING ON THE PERIPHERY

As vacant land was used up within the cities of Hungary (and other CEE countries) during the socialist period, the location of rental units moved out to the city's periphery. In the 1970s and 1980s, an outer ring of new housing estates was built where most new rental flats were located. The majority of this housing was in prefabricated high-rise buildings, consisting of two-room flats with minimum comfort levels and shoddy construction (Hegedüs, Mark, and Tosics 1996, p. 112).

In Belgrade, slum settlements also developed on the city's periphery. During the period of state socialism land had no price and so developers were expected to pay a combination of three fees to government: an urban land-donation fee, an urban land-servicing fee, and an urban land-use fee. The first two were paid in advance of building, and the last was paid in regular installments. These fees were paid according to the blueprint or based on actual floor space. The fees could be increased unilaterally by the municipal authorities. Such increases were usually forthcoming when fiscal revenues for those municipalities fell short. This proved to be a very inefficient way to allocate land. Also, investment in land was precluded by the monopoly in public ownership. The combination of the lack of market prices for land and the pattern of urban land fees led Belgrade into urban sprawl and neglect of urban redevelopment. Negligible land fees combined with cheap rentals resulted in relatively low housing costs, which attracted people from rural areas and smaller towns. Begovic (1993, pp. 147–51) believes that the growth of Belgrade was more like cities in the Third World than those in Europe.

Whether squatter settlements are accompanying the housing reforms of the 1990s is a matter for further study in the various the CEE countries.

POST-SOCIALIST HOUSING ON THE PERIPHERY: ALBANIA EXAMPLE

In Tirana, Albania, peripheral settlement is taking place very rapidly. There is a great demand for housing in Tirana as rural-to-urban migration continues apace and the birth rate remains relatively high. The city is growing at an estimated rate of 7 percent per annum and Tirana's population is expected to grow from 500,000 at the beginning of the 1990s to 1 million by 2000 or before.¹² Many in-migrants do not have the savings to pay for housing within the city limits, and financing for housing is very limited.

Sixty percent of the demand for new housing comes from low-income groups (Misja 1998, p. 57; Bongwa 1998, pp. 33–34). Poverty in Albania is widespread with 26 percent of the population of Tirana subsisting on a dollar a day or less. This figure grows to 35 percent in the periphery. The option is to self-build outside the city limits on land that is unoccupied, raising the probability of conflict with present legal owners (if they can prove themselves as such). Indeed,

¹² Sloomweg (1998, p. 137) estimates that the 1998 population of Tirana is about 700,000.

25 percent of the population of greater Tirana lives outside the city proper, according to Misja (1998, p. 56) and the Housing Department.

Some who elected to build on the periphery also despaired of the housing situation within the city proper, in which much of the existing housing is substandard and crowded. In the other East European countries floor space per inhabitant ranged from 15 square meters in Romania to 26 in Hungary, with a CEE average of about 20 square meters.¹³ The floor space in Tirana is 8 square meters per inhabitant (Misja 1998, p. 56).

Some marginal settlement is due to the inflexibility of the master plan for Tirana which was designed in 1989, before the fall of state socialism in the country (Misja 1998 p. 62; Dharmo 1998, p. 26; Bongwa 1998, p. 46). Honored more in the breach than in practice, there is a procedure in Tirana and some other cities of Albania that outlines the legal steps that builders and planners embarking on new construction must take (Dharmo 1998, p. 22–25). Since this model is state-centered and top-down, scholars and policymakers have recently been calling for a new procedure that permits more robust local control of the process (*ibid.*).¹⁴ Furthermore, as Bongwa (1998, p. 34) claims, “Without an adequate supply of planned land with access to infrastructure and basic municipal services new households and employment formation [sic] are forced to seek new land in informal settlements primarily in locations of strategic future economic development, which is exposing even larger parts of the population to health and environmental risks.” In order to solve this problem, Bongwa (1998) advocates that private-public partnerships (uncommon in the past) and other innovative combinations of policies and programs should be organized to supply infrastructure to the urbanizing area at relatively low cost. Moreover, Bongwa (*ibid.*, p. 47) claims, “Public Private Partnerships in service provision may open new avenues ... (incorporating) low income groups, if appropriate service components are offered and if adequate mechanisms of cross-subsidy are built in.”

While some parts of Tirana proper lack basic infrastructure,¹⁵ low-density areas on the outskirts are almost completely devoid of it and occupy twice the area of the land within the city limits. Peripheral settlements pose some grave consequences for agricultural land (which is scarce in Albania but of fairly good quality around Tirana) and sensitive ecological areas.

¹³ In Norway, each person has 49 square meters of living space (UNECE 1998b, p. 18).

¹⁴ However, this is easier said than done. Aliaj (1998, p. 100) note that “The local governments of Albania are financially (almost) totally supported by the state and do not have a budget of their own. In every municipality, treasury offices are set up as an organization of the central governments to control the execution of state expenditures of local governments. All financial authority has been assigned to them in order to control the use of the state grants. Without owning resource revenues of their own, it is difficult to foresee how local governments can adequately function. Five percent of revenues come from locally generated fines and taxes.” The authors feel that the reason roads are so badly maintained is the prevailing competition for funds between local and central authorities and that more revenues should be assigned to local governments “without strings.” Building of roads and maintaining them should primarily be a function of local governments, they argue (*ibid.*, pp. 116–117).

¹⁵ Elvira and Besnik Aliaj (1998, p. 98) note, for instance, “The new growth areas lack basic infrastructure, such as roads, water, sewerage, and social facilities. Within the existing urban zone, the public authorities are working with inadequate infrastructure networks and social facilities that have forgone capital investments in recent decades and [are] severely strained by the new growth pressures.”

PROPOSED STRATEGIES FOR CITY DEVELOPMENT IN ALBANIA

The Driscoll, Ersenkall, and Iadarola study (1994, pp. 23–32) recommends for Tirana that an orderly expansion of residential land should be encouraged by a coordinated expansion of major infrastructure networks including roads, public transport, water supply, sewage facilities, and drainage. It suggests that in the context of developing options for residential land management, policies and strategies should focus on:

- ◆ providing access to land for residential and economic development of all income groups;
- ◆ developing mechanisms to legally integrate new growth into the municipality and the district;
- ◆ strengthening institutional capacities at both central and local levels to implement land development projects;
- ◆ identifying legal structures and development controls which create more efficient land markets through responsive policies; and
- ◆ mobilizing private resources through the use of public/private partnerships to provide land and housing.

The formulation of land management policies in Albania also provides an opportunity to develop strategies that avoid the problems associated with rapid urban growth that have occurred in other countries undergoing similar transitions:

- ◆ providing infrastructure servicing before settlements reach a density level that either results in high servicing costs or precludes servicing because of a lack of financing;
- ◆ developing proactive land management strategies that make realistic assessment of the amount of land required for urbanization to minimize the loss of agricultural land;
- ◆ developing cost-recovery precedents early in the urban development process, thereby establishing a tradition and a willingness to pay for land and services; and
- ◆ encouraging spatial development patterns that avoid economic stratification and lead to inequitable development and inefficient servicing patterns. This includes developing strategies to balance long-term urban and suburban growth patterns (Driscoll, Ersenkall, and Iadarola 1994, pp. 23–24).

A second priority, according to Driscoll, Ersenkall, and Iadarola (1994, pp. 26–27), is to regularize informal development. The study notes that major cities in CEE facing similar growth patterns may have upward of 65 percent of their new residential development outside of the formal system, and that the figure in Tirana is probably over half (*ibid.*, p. 7).

11. MOBILITY OF LABOR

A major feature of many CEE cities is the presence of unemployment; worker redundancy was largely hidden in the days of state socialism. Also, as agriculture modernizes and is reshaped by agrarian reforms, more people are released from farming and are searching urban areas for work. Now unemployment figures range from 12 to 25 percent in the CEE cities (UNECE 1998b, p. 26). Nonetheless, as more economic activity is concentrated in the central city of the country, a

new distribution of jobs is developing. Although privatization initially eliminated jobs, new enterprises are being established, resulting in some increase in available jobs.

The emergence of new industries in Warsaw is a good example. Migration to cities to take new jobs may be frustrated by the fact that apartments are scarce. Those most frustrated by this lack of housing are the lowest-skilled and lowest-paid workers, those least likely to have access to financing. It appears that even when the countrywide unemployment is high, some cities may have low jobless rates. One estimate shows that the reduction in the official housing queue of three persons would increase labor supply by one full-time employee in Poland. If the housing queue were eliminated entirely, full-time work availability would increase by 6.9 percent (Dale-Johnson and Gabriel 1995, pp. 399–400).

Others do not subscribe to the view that lack of housing hampers economic development in Poland. UNECE believes that immobility of labor may be caused by a housing shortage but that Poland's economic development appears not to be much affected. The UNECE notes that Poland became the first central European country to register an increase in economic activity after the reforms of 1989, with a GDP increasing by 2.6 percent in 1992, 5.2 percent in 1994, 7 percent in 1995, and 6 percent in 1996. Concomitantly, inflation was markedly reduced. Still this economic activity took place without much change in an unemployment rate of about 15 percent. In a somewhat confusing and paradoxical statement, the UNECE noted that "A deep quantitative deficit of dwellings is hindering the migration of workers between regions. High unemployment among young people means that they do not earn sufficiently to save money for housing. Unemployment has drastically reduced the demand for housing and will continue to do so" (UNECE 1998a, pp. 2–3).

The new pattern of industrialization in the Czech and Slovak Republics is strongly differentiated geographically and is generating considerable employment in the larger urban centers of Prague and Bratislava and a few other industrial centers. Meanwhile, regions with old and inefficient large-scale, often heavy industries are suffering contraction and losses of jobs. In Prague, unemployment is incredibly low, 0.3 percent, while in some other outlying areas it is as much as 6 to 8 percent. Prague is suffering a labor shortage of serious dimensions. In these conditions, the lack of sufficient new housing or the flexible use of the older stock has been a constraint on labor mobility.

When housing is in short supply, prices rise, employers have to hike the wages they pay to attract workers. This expense will be passed on to consumers, making Czech and Slovak goods less competitive on the world market. Or, because of labor scarcity employers may decide not to expand their operations. Scarcity of housing can deter the expansion of economic activity in areas where the market would justify it. Thus faster privatization, establishment of a mortgage market, deregulation of rental markets, and development of an expeditious foreclosure procedure are all greatly needed (Kingsley and Mikelsons 1996, pp. 188, 211–21).

Major institutional innovations are necessary in the CEE region before a fluid and responsive housing market can be created. Cooperatives, which make up about 20 percent of housing stock, have managed to insulate themselves from much change. Municipally owned social stock (about 23 percent of housing stock) is in flux and is only slowly moving toward privatization. The new housing market is, for all intents and purposes, completely stagnant; while government building has stopped, the private sector has not moved to replace it.

Also important to the encouragement of mobility of labor is the existence of various forms of land tenure in urban housing. Rental properties are very much in demand by newcomers to the cities and young couples who are needed to make up the workforce there. In Hungary, rental properties were moved in great haste from the public to the private sector, leaving the remaining rental sector attenuated. Indeed, Daniel (1997, p. 162) claims that there is not another city in the world with so low a population in rental housing as Budapest. Scarcity of rental units has bid up the price of rentals and remains as an important barrier to labor mobility (Daniel 1993, p. 108). Having a large number of rental units facilitates labor mobility because people can easily move from one location to another to follow a job. It is more difficult to move from an owned home to another owned home (Daniel 1997, p. 162).

12. PROPERTY RECORDS

The existence of a functional, current, and publicly accessible cadastre showing all titles and boundaries is an essential foundation for the new reforms. Developing a titling system in which people have faith should help to give them security. Property ownership records need to be accurate and transparent. Bulgaria, for example, has not provided public access to records even though USAID is providing \$10 million toward the cost of upgrading the 1939 cadastre. Bulgaria is, however, in a more fortunate position than other CEE countries. Since there was so much private ownership during the period of state socialism, urban land records have been reasonably well maintained. Land transactions are recorded at the city's Notary Office with the transaction showing the buyer's and seller's names, location, size, and market price. Transactions are filed by the name of the buyer, not by location. The Cadastral Office is separate and, to learn of changes, its staff inspects notary records from time to time. Because delays in recording and cadastral inaccuracies are problems for banks, several are considering providing more financing to update the system (Strong, Reiner, and Szyrmer 1996, pp. 72–73).

In a number of CEE countries, cadastres and land records are being recreated or updated to international standards of accuracy. The state operates in conjunction with local governments to maintain these systems and specifies how recording of property transfers should take place. Property-value maps are being prepared for all large cities in the Czech Republic. Soon it will be possible to have ready access to this data. Poland has begun to record the actual sales price rather than an agreed-upon artificial price. The real price is necessary if a proper mortgage system is to be developed. In the past, it has been necessary to rely on imputed income or assessed property sales for tax purposes. Now, with open market transactions, a public record has become possible (Strong, Reiner, and Szyrmer 1996, pp. 251–52).

Throughout the CEE an open and active sales market is stifled if there is a lack of clear title to urban residential property. In Albania, with current confusion about the establishment of condominiums, the problem is compounded. Presently, newly privatized owners register their contracts with the Hipoteca office.¹⁶ They are then considered owners and have the right to sell

¹⁶ Stanfield, Childress, and Dervishi (1998, p. 11) describe the inadequacies of the *hipoteka* by noting that most of them were closed for the last 15 years of state socialism. These offices were repositories for transaction contracts and had functioned in most cities until 1976. At that time the government largely eliminated market transactions. Beginning in 1991, the office opened again to accommodate the privatization of the economy. Still, however, "In the Tirana Hipoteka Office, working conditions were extremely cramped, the office is very busy, and records are not

their property. But just what property would be conveyed by any sale is ambiguous. Although the privatization fee includes an explicit payment for a pro-rated share of the land under the apartment house, the contract does not mention either the land or the common areas of the building. It only describes the apartment proper (Lowry 1993, p. 14). This ambiguous situation regarding common property exists in spite of the approval of the 1994 law for the immovable registration system for all real property in Albania and the new Civil Code, which contains provisions for ownership, lease, and transfer of rights to immovable property.

13. CONCLUSION

The reforms of the urban property market have not yet improved the housing supply problems that existed under state socialism. Many economies of CEE have been lethargic and, until steady growth begins in earnest, it is doubtful whether a healthy urban housing sector can emerge. In most of CEE, the subsidies and financing for housing available under state socialism have been drastically reduced, but the private sector has not yet decisively stepped in with housing credit.

By selling the units to local governments the state has been spared the costs of upkeep. Mainly because state dwelling units were suffering from lack of maintenance and would have required considerable costly repair and rehabilitation, the state transferred these rights to local governments. Local governments, in turn, have attempted to sell these housing units to their sitting tenants.

Those households that were relatively wealthier at the beginning of the privatization process have been able to substantially benefit from the housing reforms. They have been able to capitalize on the new system by buying the rental properties they were occupying at very low prices and on exceedingly favorable terms. Sometimes they have improved their flats and traded up. By not requiring this richer group of buyers to pay more, government may have foregone important sources of revenue for future housing and infrastructure and unnecessarily attenuated the rental sector.

Meanwhile, in most countries except those undergoing economic recovery, the number of new units being constructed annually is lower now than at the end of the 1980s, guaranteeing that the housing shortage that was the legacy of state socialism has not lessened. In this situation it is also doubtful that much improvement will occur until an adequate package of finance measures becomes viable or the private sector is invigorated. The latter depends on economic upturns in CEE countries.

Low-income households find themselves less favored by the government policy of selling rental units to sitting tenants. Some are afraid to purchase—even at excellent prices, terms, and rates—for they are afraid the costs of operation, maintenance, and rehabilitation will be too high to meet. Low-income households that purchase their rental property are wary that the government may arbitrarily raise required installment payments or interest rates. Counterbalancing these factors and providing impetus for renters to buy is their fear that rental

easily accessible.... Title searches are not easy to do, and lawyers or notaries typically do not do them.” This system is clearly inadequate for protecting the rights of the thousands of new property owners that have come into existence in the past few years.

rates will rise. Furthermore, many lower-income families are compelled to move out of the central city because land and housing prices are rising most steeply there.

The problem of income and resource distribution is becoming more serious in the CEE countries as high-income households are able to take advantage of the new situation while most poor families are at a disadvantage. However, some low-income families get a subsidy as renters. In addition, a substantial number of households that are not among the wealthy are taking advantage of their option to buy at low prices and good terms, giving them a stake in the system for the first time in their lives. In the final analysis, however, the inequalities of income and resource distribution under state socialism are rendered more serious under the new system of free markets.

Had governments sold rental units at higher prices they would have been able to put more public funds into housing or greatly needed infrastructure. Roads, systems of public transport, drinking water, and sewage systems are all being utilized more than under state socialism and are badly in need of repair or extension. Presently, wealthier families have taken their windfall profits and run with them. Of course, richer families may also invest these profits in the housing market, but without government incentives their investments are unlikely to benefit the poor. Only a few CEE countries have in place housing allowances targeted for low-income residents; others are planning them.

Another housing reform issue is increased rental rates, though they have met with stiff resistance in many CEE countries. The rental rates under state socialism were not high enough to cover operation and management, let alone rehabilitation. Early research seems to show that rents could rise appreciably, and most families would be able to pay them without a decline in living standards while housing allowances could be made available for those with low or fixed incomes. Higher rents would probably cause more renters to purchase their units as protection against these rates, and rent decontrol would also help outside buyers to decide to purchase dwelling units for purposes of generating rental income.

Increasing the owner-occupant sector in urban housing in the CEE region, however, will not guarantee that this sector is rehabilitated through more investment. Upper-income households may be able to afford some investment of this type, but, until it is possible to borrow, it is unlikely that private ownership will have this across-the-board effect.

It appears that prices for housing rise immediately upon privatization as the rich with pent-up demand and with foreign-currency savings compete for the best private stock that is available, hoping for a cheap but valuable asset that is also a protection from inflation. However, one reality of the macroeconomic situation in most of the CEE region is that real income for most households has not increased, so that effective demand for housing cannot be found outside this high-income group. Falling real prices for housing are not, of course, observed in the central city, in other parts of the city where business competes with housing, and in the luxury suburbs.

Recent economic reforms are changing where jobs are located in CEE. Large cities are increasingly the focus of economic activity, and some medium-sized cities that had large heavy industries under state socialism are closing down. Furthermore, agricultural reforms are causing some jobs to dry up in farming. This has resulted in increasing migration to large cities, where needed new workers increasingly cannot find adequate housing financing for their families. Housing shortages in large cities of CEE may well be thwarting the economic development

process there, even though unemployment, accentuated by industry privatization, is also a major problem.

Most of the observations in this paper are made considering references available for the first five to seven years of the decade, when many reforms were implemented. The following questions, exploring how these reforms work out in practice, need to be answered by the new wave of research that must cover the entire decade of the 1990s.

1. How many of the strong and weak points of state socialism remain in today's institutions in the CEE countries to facilitate or hamper development?
2. Has the free market been able to ameliorate the problem of "hidden homelessness" (the doubling up of families in one residence)?
3. Researchers writing on urban housing in CEE have neglected the issue of titling and registration or have treated it in a very general, superficial manner. For example, with regard to the Czech and Slovak Republics, Kingsley and Mikelsons (1996, pp. 202–03) state, "With regard to processing sales transactions...the creation of a truly efficient processing system is a big job that is still underway. It will no doubt ultimately require the implementation everywhere of computer-based record systems on the ownership of all properties: a number of local offices have already made considerable progress in automating these records. This transition appears to be a success story so far... ." To what extent is titling and registration a constraint on the development of a free market in urban property?
4. To what extent do regulations on buying and selling property and the existence of nationalized property still hamper the working of the free market?
5. CEE research on the issue of urban housing has not treated to any extent the matter of zoning and easements. How are they utilized in any parts of the CEE and how do they facilitate or hamper development?
6. To what extent are various market system bottlenecks, like the unavailability of housing materials or their high price, deterring the advancement of the urban housing market in the CEE?
7. Are there instances where the government has gone "too far" with reform and weakened the rental sector such that young families and newcomers to the city cannot find accommodations? What becomes of low-income families or old people displaced from the central city?
8. What have the new condominium laws in countries like Hungary done to facilitate the housing market? What constitutes a good condominium law and what happens when one does not exist? Are there alternatives to a condominium law if parliaments are politically unable to pass one?
9. Usually the CEE countries do not wait for a certain percentage of apartment holders in a building to declare that they will buy before beginning to privatize, so it is not unusual to have a building that is partly owned by the municipality and partly by individuals. What governance problems are caused by this arrangement and how are they being solved?
10. The state monopolies on building management have been broken in favor of either private management firms or associations of tenants. How are these new entities working out in practice? Which new alternative is better?

11. Most urban housing CEE researchers come to the conclusion that the transition to the free market is exacerbating the inequities of state socialism in various ways. Are there still other urban housing inequities inherent in the transition? Can the ones mentioned here be documented? Are there counter phenomena that ameliorate this situation?
12. Are municipalities who received the transfer of state rental properties able to manage them better than the central state government? What difficulties have they had in this regard? Have they sold off property on such favorable terms for buyers that they are not able to invest or facilitate private investment in the urban housing sector?
13. One of the primary urban housing-market reforms was to be the gradual increasing of rents so that they at least cover the operation and management of the units. In many countries this move met with a great deal of initial political opposition, because it meant raising rents at the same time that other prices were increasing and earning power was diminished in several ways. Has this problem been solved, and how? Is it still true that the vast majority of renters can take substantial hikes in rent without affecting their living standards?
14. What is the extent of housing privatization in 1999 in the various countries?
15. To protect the poor and those on fixed incomes against rising prices, many governments have proposed a housing allowance. To what extent have countries in CEE now enacted them and how are they working out in practice? Targeting was a major problem under state socialism. Does it work better under the transitional system?
16. Have new owners of flats begun to improve them? Did they invest in improvements during the rental period (during which time they seem to have had very secure tenure rights)? Why or why not? Is it true that wealthier new owners improve their units with their own savings, but that poorer new owners are impeded by the lack of financing for rehabilitation purposes? What are the bottlenecks to housing stock repair and rehabilitation?
17. When privatization was announced real prices for homes rose substantially but, as those with effective demand purchased the best available units, real prices dropped (this refers to the average price, even though in some suburbs and in the center of town prices continued to rise). Did these trends continue through the last part of the decade? In which countries did these trends not prevail and why?
18. In those CEE countries that have had a modest upturn in macroeconomic indicators in the late 1990s, what has been the concomitant change in the urban housing market? Poland, for example, is growing at respectable rates. What has happened to the urban housing market there? What is happening to the urban housing market in CEE countries that are still in dire economic straits?
19. In what ways is the lack of affordable housing in major CEE cities thwarting the development process by interfering with the mobility of labor? Is this problem still serious in countries that have a great deal of urban unemployment?
20. Is there evidence that development of squatter settlements on the periphery of cities is occurring? Why is it occurring? Should this settlement be discouraged, or is it really a response to the need for labor in cities, thus helping to facilitate the mobility of labor? How can this settlement be regularized?
21. To what extent is rent control still influencing the vitality of the housing market?

22. Has the process of restitution displaced many renters, and if so, what has become of them?
23. Most financial institutions were rudimentary in CEE in the early- to mid-1990s. Which ones have become viable and have assisted households in obtaining their private dwellings?
24. Why has Tirana, with its poverty, lack of financing, and real estate professionals, developed such a boom in urban construction?
25. Is the restitution process in many CEE cities still stymied and why?
26. How can financing for urban infrastructure be facilitated?

ANNEX: STUDYING THE URBAN HOUSING MARKET

Most of the studies cited in this paper have been accomplished by using a combination of authoritative informants, examining the census and the public record, and the files of the nascent network of real estate agents. There have also been several household surveys such as the one done in 1992 by Hegedüs and Kovacs for the United Nations in Hungary, which was published informally and is no longer available (Hegedüs, Mark, and Tosics 1996, p. 79). In Hungary, every two years the Central Statistical Office conducts a Household Budget Survey (HBS) based on a national sample. These surveys canvas around 12,000 randomly selected households and are based on a uniform sample frame developed from the population census.

The HBS gives considerable detail on income and expenditure and uses a relatively long observation period of two months. Although the HBS has all of the usual problems of gathering information with questionnaires, these surveys offer a detailed source of data on housing and other reforms. The sampling unit is the dwelling, which may contain more than one household. The Hungarian Central Statistical Office (CSO) provides survey weights and the census data underlies all surveys. Participation in the HBS is voluntary so there is a potential problem of nonresponse. The CSO's definition of nonresponse covers both cases of failure to contact the sampled household and cases in which the household refuses to participate or drops out after the interviews have begun.

Overall, the response rate has been good in comparison to Western surveys. In 1991, 73 percent of selected households were successfully contacted to supply data. Response is not uniform; a higher percentage of rural than urban interviews are successful. High-income, young families, and "families living in disordered conditions" respond less frequently. Whenever there is a nonresponse, a new dwelling is selected at random from the same area (Pudney 1994, pp. 252–56; Pudney 1995, p. 76).

Douglas (1997, pp. 96–108) describes his survey in Budapest in some detail. Besides questions regarding socioeconomic aspects of the household, Douglas examined such issues as labor market activity, attitudes toward the transformation process, renovation of housing, and neighborhood satisfaction. He selected eight neighborhoods in which the survey was to be implemented. He sought to have each neighborhood represent one of the following characteristics: (1) upper-status new area, (2) older upper-status area, (3) lower-status inner-city ghetto, (4) lower-status, inner-city working class, (5) housing estates from the 1950s, (6) buildings from the 1960s and 1970s, (7) buildings from the 1980s, and (8) a self-built, predominately lower-class suburb.

With these characteristics in mind, Douglas (1997) performed a cluster analysis, a statistical procedure which identifies homogeneous groups of cases based on their values for a set of variables, using the 1990 Hungarian population census. The goal was to analyze the 418 Urban Planning Units (UPU) in Budapest that contained more than 250 dwellings and pick 8 neighborhoods that would illustrate the types mentioned above. The study isolated 16 useful variables on which to select the UPU's. The variables were households per dwelling, number of dwellings per UPU, dwelling density per hectare, percent of active workers, percent of dwellings with a toilet, percent of the population 0–13 years, percent of the population over 60 years, percent of one-story buildings, percent of dwelling built before 1960, population density per

hectare, population per UPU, percent of population with a primary education, percent private dwellings, percent of dwellings with one room, percent of dwellings with three rooms or more, and percent of population with a university education.

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In this paper I will treat CEE countries in which there is ready information in English

These countries (with the percent of their population in urban areas) are: Albania (38), Bulgaria (69), The Czech Republic (66), Hungary (66), Poland (64), Romania (57), The Slovak Republic (60), Slovenia (52) (World Bank 1998/99, p. 192-93).¹⁷ When information on it can be separated from that of West Germany, the GDR is also included. Some information from the former Soviet Union is also presented for comparative purposes. There is uneven coverage of the countries because the literature base for each is quite different. For example, there exists more information on Hungary and Albania than the rest of the countries and, with the exception of Slovenia and a reference to Serbia, there is little available data on the former and present Yugoslavia.

¹⁷ The population of the eight countries of East and Central Europe listed (without the former GDR) is 100 million with 61,970,000 or 62 percent being urban. For the sake of comparison, the US has 270,312,000 people, just under three times as many people, with 208,140,240 or 77 percent living in urban areas. Again, the urban population of the United States is about 3 times as large as it is in the eight countries of East and Central Europe discussed in this paper. The combined GNP per capita is \$3,205 in the countries discussed here and, again for the purposes of comparison, \$28,740 in the US.