

**TRENDS AND PROGRESS
IN HOUSING REFORMS
IN SOUTH EASTERN EUROPE**

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I INTRODUCTION

1 EUROPEAN AND GLOBAL COMMITMENTS TO AFFORDABLE HOUSING

The significance of housing and the corresponding responsibilities of national governments have been recognised in a number of international documents.¹ These include the Council of Europe's *European Social Charter of 1961* (Art. 16), its additional Protocol of 1988 (Art. 4), and the Revised European Social Charter of 1996 (Art. 31). Compared to the world-wide declarations on the right to housing, the European declarations seem to be more concrete. In the Revised *European Social Charter*, Article 31 states the following: "With a view to ensuring the effective exercise of the right to housing, the Parties undertake to take measures designed: to promote access to housing of an adequate standard; to prevent and reduce homelessness with a view to its gradual elimination; to make the price of housing accessible to those without adequate resources".² Recently, the Council of Europe has established a Committee on Access to Housing to address housing policy issues. Furthermore, it has recognized that the problems in transition economies need urgent attention particularly with respect to the provision of affordable housing for the homeless, people with disabilities, ethnic minorities and the elderly (Council of Europe, 2002b).

The UN Habitat Agenda adopted in 1996, and the *Declaration on cities and other human settlements in the new millennium* adopted by the Special session of the UN General Assembly in June 2001, reaffirm the commitment of Governments to ensure access to adequate housing. In the Habitat Agenda, the right to adequate housing means that "everyone will have adequate shelter that is healthy, safe, secure, accessible and affordable and that includes basic services, facilities and amenities, and will enjoy freedom from discrimination in housing and legal security of tenure". In order to achieve this fundamental goal an emphasis was placed on collaboration between public and private actors and institutions and 'enabling strategies'.³ The enabling framework was defined by the World Bank in the early 1990s with recommendations for its implementation through

¹ In the context of housing policies, the basic human rights covered by the European Convention on Human Rights concern the right to respect private and family life and the home (Article 8) and the right to peaceful enjoyment of possessions (Article 1 of Protocol No.1) must be particularly respected and protected.

² Article 30 of the Revised European Social Charter is intended to prevent and alleviate poverty and social exclusion whilst promoting the rights of excluded people to employment, housing, education, culture and social protection as well as health care services.

³ The Council of Europe has emphasized the importance of the 'enabling framework' for housing policies of Member States. Within the overall context of such an enabling approach, Member States should, in accordance with Article 61 of the UN Habitat Agenda, take appropriate action in order to promote, protect and ensure the full and progressive realisation of the right to adequate housing (Council of Europe, 2002a).

constant monitoring of the housing situation to readjust policies, programmes and projects (World Bank, 1990; UNCHS, 1992).

2 OBJECTIVES OF THE REGIONAL STUDY AND APPROACH

Objectives

Efficient housing policy reforms are essential for the economic and social well-being of local communities and for their successful integration in society. The successful economic and social development of the countries in South East Europe requires urgent commitment of leading public institutions to more efficient housing policies, liberalization of markets and coherent efforts promoting social cohesion.

The Council of Europe Development Bank, in partnership with the Council of Europe, the United Nations Economic Commission for Europe and the Stability Pact, is working on a *Regional Study of Trends and Progress in Housing Reforms* that will assess housing policy and market performance in eight countries in South East Europe (SEE). Countries included in the study are Albania, Bulgaria, Bosnia and Herzegovina, Croatia, Former Yugoslav Republic of Macedonia, Romania, Republic of Moldova, Serbia and Montenegro with a reference to Kosovo/UNMIK. The study is intended to address major policy challenges in the development of appropriate regulatory, fiscal and financial instruments to enable the operation of housing markets and access to affordable housing. As such, the assessment can be instrumental in establishing a more efficient and equitable housing policy in the region. Within this context the study has the following objectives:

- To evaluate progress in housing reforms in the countries under review focusing on key indicators of market and policy performance;
- To review major developments in the legal, institutional and financial framework for housing identifying challenges and constraints;
- To identify and disseminate lessons from good practices in housing policy reforms across the region;
- To build consensus on key housing market and policy indicators to be monitored in the future to allow the development of efficient and effective national and regional housing policies.

Approach

The research strategy incorporates five stages:

Analytical assessment: Research and information collection of secondary information – government documents, reports of international agencies, conference papers and statistical information – was carried out from November 2004 to March 2005. This phase included an inventory of existing institutional databases, the development of analytical framework for comparative assessment and identification of information gaps.⁴

⁴ Several secondary sources of information are particularly relevant. The Council of Europe Development Bank/World Bank recent publication "Housing in South Eastern Europe: Solving a Puzzle of Challenges (2003) is an excellent overview of housing problems and issues in the region. The United Nations Economic Commission for Europe (UNECE) has carried out several housing profiles of countries in the region – Bulgaria, Romania, Albania, and Moldova. The studies use a common approach to monitoring and evaluation of policy responses and market performance in five major areas: (i) *the framework for the housing sector transition*; (ii) *the existing housing stock and new housing*

Framing the process and building consensus: Discussions with housing policy makers and representatives of international agencies during a Council of Europe Housing Network workshop in Strasbourg (December, 2004) explicitly defined the scope of the study and its approach. A survey administered to the Housing Expert group assisted in defining major challenges and policy priorities in the region (see Annex 1).



South East Europe: A Diverse Region

Survey of housing reforms in eight countries in the region: The survey was administered with the assistance of experts from the Council of Europe Housing Network. The set of housing policy and market indicators included in the survey was approved by the Network during their meeting in Zagreb, November 2003.⁵ The indicators track progress using census data (1990 and most recent) as well as time series data organized in five thematic blocks: i) demographics; ii) quality and distribution of housing; iii) new housing construction and investment; iv) affordability of housing; and v) housing markets (see Annex 2).

Field work: Additional data on housing market performance and information on recent developments in legislative reforms, housing finance and housing assistance was collected through key informant interviews in Serbia and Montenegro, Former Yugoslav Republic of

construction; (iii) the institutional framework; (iv) the legal framework; and (v) the financial framework. A recent conference (September 2004) organised by the Stability Pact in Vienna addressed the problem of illegal construction in SEE.

⁵ These indicators are similar to those collected for the EU member states and disseminated annually as EU housing statistics. The study will thus establish the basis for regular monitoring and evaluation for housing policy purposes in SEE.

Macedonia, Bosnia and Herzegovina and Moldova. Three-day research visits were undertaken to Skopje (December 2004), Sarajevo, Pristina and Chisinau (March 2005). Close to 45 interviews were carried out during the fact finding mission with housing policy makers, real estate agencies, banks, municipal housing organizations and representatives of central government and international agencies.

Comparative evaluation and validation: Based on findings from the literature review, surveys, interviews and comparative evaluation of country specific housing reform practices, the comparative evaluation of trends and progress in housing reforms is developed. The study will also establish a system for regular monitoring and evaluation of housing policy. The validation process includes consultation with experts from Council of Europe Housing Network, representatives of international organizations and *dissemination of results* through publications, the media (web and print form), as well as targeted dissemination at a seminar in Strasbourg in June 2005.

3 EVALUATION OF HOUSING SYSTEM PERFORMANCE

The performance of a housing system may be evaluated from the point of view of either the individual or society. With respect to the individual, the performance of a housing system relates to the quality of housing services which flow from the housing stock, the availability and price of housing, the rights associated with occupancy, and the degree of choice in access to housing. A very important determinant of housing choice is affordability of housing for different households in relation to social class, income, ethnicity, age, family size, etc. The quality of housing services flowing from the stock encompasses the 'bundle of housing services', including dwelling characteristics (condition, amenities, size, etc.), neighbourhood environment, and security of occupancy.

From society's point of view, the performance of a housing system must be evaluated in the first instance in terms of the extent to which it meets the shelter needs of its citizens. Thus, performance relates to the adequacy of supply relative to 'need' as well as the quality of the stock and its availability at affordable prices. A well functioning housing system must not only provide an adequate supply of housing of acceptable quality at any one point in time; it should be able to produce new housing to respond to household changes, as well as to maintain and improve the quality of the existing stock (Karn and Wolman, 1992).

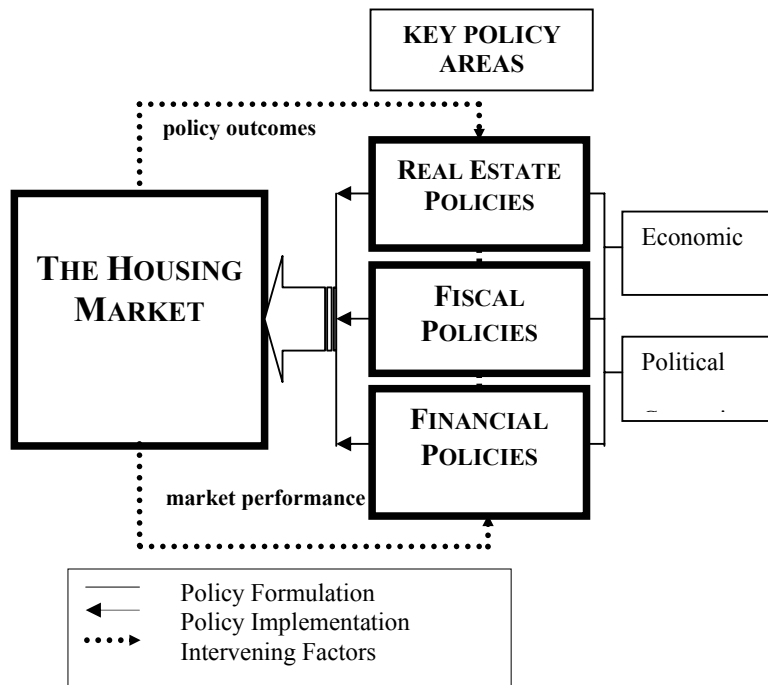
In the broadest terms a well functioning housing system needs to maintain a steady flow of investment in improvement of housing quality and to ensure that households have access to affordable and decent housing. Quality, affordability and choice are critical factors in evaluating national housing system performance. The implications for society, and correspondingly for public policies, are associated with the cost of housing of given quality and the ability of the system to deliver housing services in an effective and efficient manner (Angel, 2000). At the fundamental level the question how much of society's resources are devoted to support the production of housing or its consumption becomes critical. And how these resources affect the functioning of the housing market and the operation of private and public housing institutions is particularly significant (Harloe and Martens, 1983).

3.1 Conceptual framework

The conceptual framework in this study uses the evaluation model for housing policy and housing market performance in transition economies developed by Buckley and Tsenkova (2001). The model defines three distinct policy arenas, each governing not only policy outcomes, but instruments and types of intervention as well. To the extent that the policy arena is dependent on exogenous factors such as economic and policy constraints, the specific choices of instruments will be made (see Figure I-1). The most significant policies that affect the housing sector in reforming socialist economies are fiscal, financial and real estate policies. It is recognized that in addition to those main policy arenas, there are other kinds of policies that have immense and often unintended impacts on market performance. The latter would include shifts in macroeconomic policies, taxation, structural reforms, changes in political regimes and systems of governance. It has been argued, for example, that the influence of economic shocks across the region is still felt long after their first impact (EBRD, 2004).

Despite these constraints, the housing sector has managed to emerge out of the transition with modest prospects for growth. Privatization and rapid institutional transformation, in addition to its internal dynamics, have and will continue to affect its performance. These rapid changes, manifested in a series of market outcomes, correspondingly reshape the context for policy formulation and implementation, as well as generate new policy intervention. The model provides a dynamic perspective, where the different parts act, react, and interact to produce change. The complexity of fiscal, financial and real estate policy reforms can be explored through evaluation of policy outcomes and the way they relate to market performance. The model is then operationalised through a set of policy and performance indicators to assess strengths and weaknesses.

Figure I-1: A model for evaluation of policy reforms and housing market performance



Source: Buckley and Tsenkova, 2001

Housing supply. Figure 1-2 applies the conceptual model to a particular housing market and identifies major determinants that map out the relationship between policy and market outcomes. On the supply side, the flow of housing services from the existing housing stock, its physical condition, quality and tenure distribution are decisive factors for the operation of housing markets. Supply changes in the existing stock can take several forms: changes in the number and size of units through subdivision or conversion, changes in the quality and value of housing without physical alteration, changes in tenure, changes in the quality of the unit through modernization and improvement. These changes, however, are less visible compared to new construction, which is the most dynamic component of housing supply. In most transition economies new housing, due to the substantially better quality and diversity of the product, is much more significant for mobility and choice than its smaller share in the marketplace might indicate.

Housing supply is subject to a number of external influences: economic growth, inflation, credit availability and the operation of the housebuilding industry. For example, the growth of private housebuilding firms facilitates competition on the supply side and changes profoundly the production of housing (Tsenkova, 2000). Those profit motivated actors are very adaptable to the marketplace, which is reflected in the economics of housebuilding (e.g. construction and land costs, house prices, profits).

Housing Demand. Other determinants in the process of housing allocation are demand related. On the demand side, households are classified on the basis of household attributes, consumer preferences, and constraints. Income is usually taken as an overall index of the demand and purchasing power of households, while the house price is taken as an index of the type of housing supply available (Bourne, 1981). Housing demand in a market-based housing provision system is determined by demographic trends, such as the rate of in-migration and changing family and household composition, but more importantly by income distribution, house prices and affordability (Rothenberg *et al.*, 1991). Those factors influence demand in the private rental market in a similar manner.

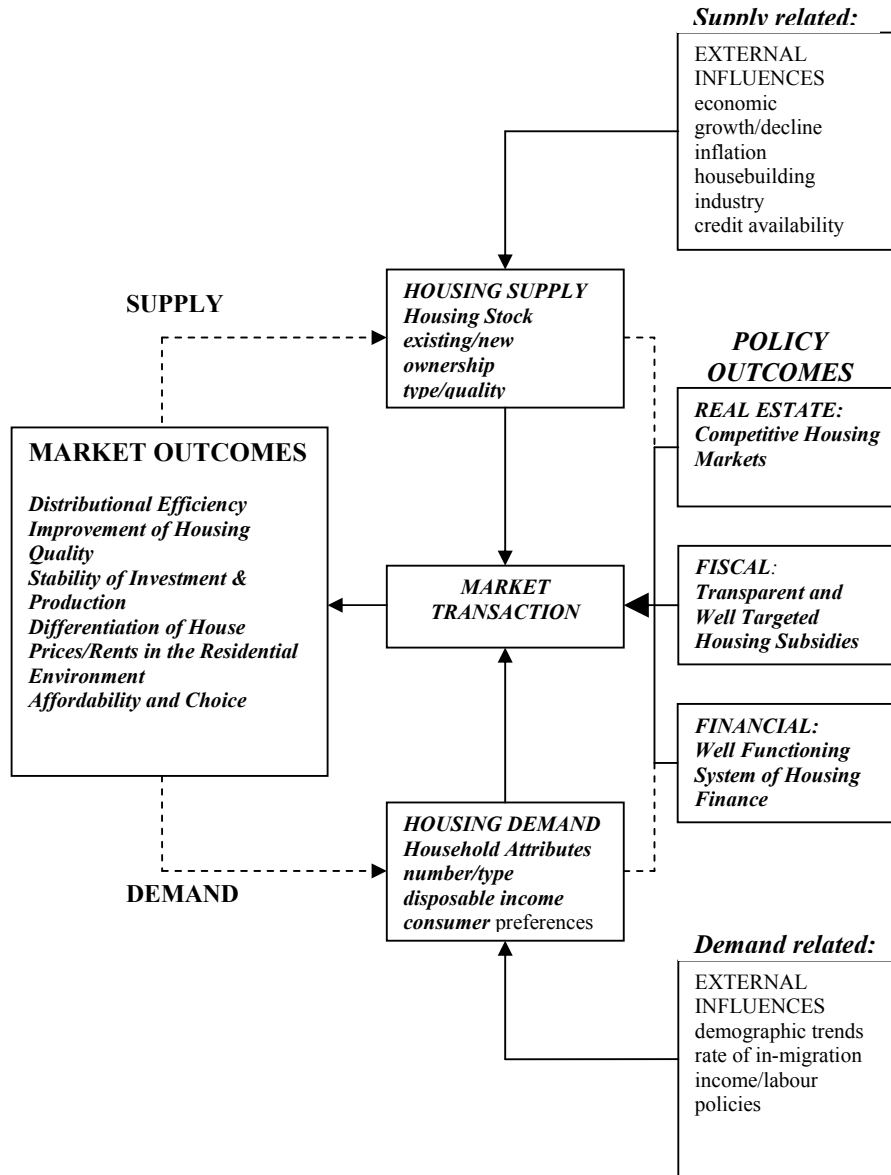
Market Outcomes. As in long-established markets, the linking mechanism is the market transaction, which brings together households and housing units. The outcomes in spatial terms are related to land use changes and location patterns of housing supply. More specifically changes in demand are reflected in the type, quality, size and prices of new and existing housing. Several broadly defined clusters of market outcomes are critical for a well functioning housing system:

- *Distributional Efficiency*
- *Improvement of Housing Quality*
- *Stability of Investment & Production*
- *Differentiation of House Prices/Rents in the Residential Environment*
- *Affordability and Choice.*

These market outcomes can define a system of interrelated indicators that will allow performance to be monitored and evaluated (Angel, 2000; Lujanen, 1993; MacLennan and Gibb, 1993). Correspondingly, the range of fiscal, financial and real estate policies with major impact over the operation of the housing market can be adjusted to enable better and more efficient operation of the market. For example, subsidies for home owners might alleviate affordability problems. Access to subsidized credit could provide a major boost to new housing construction. Financial instruments

might serve as incentives to invest in improvement of housing quality and energy efficiency retrofits. On the real estate side, free exchange of units might contribute to a more efficient distribution of housing according to changing household needs (downsizing housing consumption or moving up the market), increase the supply of housing on the market and ultimately bring the prices down. Privatization policies effectively increase the share of ownership and/or lead to emergence of a private rental sector. Alternatively, these policies could also create significant housing inequalities.

Figure I-2: Determinants of housing performance



Source: Tsenkova, 2004a

The analysis below explores in more detail the relationships between housing market performance and policy intervention and defines a set of conceptually appropriate indicators to monitor these relationships.

3.2 The framework applied: evaluation of housing market performance

Distributional efficiency: housing supply



New single family housing in the suburbs of Sofia

The concern with housing supply in the first instance is with the relationship of the total number of housing units in the country to the number of households wishing to occupy separate units. Is there an actual shortage of housing nationally, or, if not a shortage, is there a sufficient surplus or vacancy rate to permit choice and mobility? In most EU countries the problem of housing supply concerns the degree to which the actual national housing stock matches the household demand. Is the stock in the right place, or are there cities or regions where housing shortages, or even homelessness, exist in the face of an overall national surplus? Is the housing supply appropriate in terms its distribution in accordance with family characteristics? Is there adequate housing for various specific types of households such as single individuals, large households, for the physically or mentally handicapped, for the elderly? Two indicators can measure housing consumption at the national and local level: number of units per 1000 inhabitants and average space per person.

Both indicators provide crude estimates of housing shortages and overcrowding. Tenure structure and changes in the composition of households is also a critical factor defining the adequacy of housing supply.

Improvement of housing quality

Housing quality includes a variety of attributes: the actual physical structural condition, the presence of amenities (connection to piped water and sewer, central heating etc.), the amount of usable space (both in area and number of rooms), and occupancy standards. The concept of housing quality is relative and changes over time unless specified in housing and safety standards. For the purposes of this analysis it was considered that the share of housing stock that has water

and sewer systems, bathroom and central heating would be used as an indicator of housing quality.

Stability of housing investment and production

The adequacy of a nation's housing investment must be judged by the relationship of existing housing supply and quality to changes in the need and demand for housing. Thus, the portion of a nation's resources devoted to housing is not, in isolation, likely to be a useful indicator of adequacy of investment. Housing investment as a percentage of gross domestic product (GDP) -- as well as the division of investment among new construction, rehabilitation, and maintenance and repair -- will vary with a nation's position in the urbanization and development process (Hegedus *et al.*, 1996). The real question is whether investment is sufficient given the rate of population growth, the adequacy of the existing number and quality of the housing units, and the need for upgrading and replacing portions of the existing stock over time.



Stability of investment. One important aspect of housing investment is its stability with respect to economic cycles. Substantial fluctuations in investment may cause serious problems with respect to housing supply, condition, and cost (Buckley and Tsenkova, 2001).

Housing production. New housing production is the most dynamic indicator of housing market performance. The flow of new housing is important to meet changes in demographics and demand, as well as to offset depreciation. Given the low production levels in many transition economies during the last decade, it appears likely that a large cut back in residential capital has occurred, although new housing is generally better in terms of quality and standards.

New tradition built housing in Sofia, Bulgaria.



Privatized multifamily housing close to the business centre in Podgorica, Montenegro

Differentiation of prices/rents: location

A housing unit does not exist in isolation from its physical and social environment. The physical quality of the surrounding structures, the social status and safety of the neighbourhood, the level of public service and access to local shops are all key factors affecting house prices and rents and correspondingly the housing status. High-rise estates at the urban periphery are unlikely to be valued as greatly as single family units with gardens or apartments in the historic parts of the inner city. Even if the actual physical quality of the properties is similar, the market reflects the desirability of location and reproduces these advantages and disadvantages in a house/rent price map (Pishler-Milanovic, 2001; Sendi, 2001). The desirability of a neighbourhood attracts new investment and correspondingly contributes to the improvement and livability of the residential environment.

Location. The optimal location of housing has direct implications for the prices and rents at the national, regional and local level. Accessibility of housing to jobs and other services has major implications urban spatial efficiency, labour mobility and ultimately economic adjustment.

Affordability and choice

In transition economies, the cost of housing represents the relative price of housing in the traditional microeconomic sense. For example, Hegedus *et al.* (1996) have shown that over time, as transition economies have stabilized, the cost of housing, standardized by household purchasing power, has fallen to OECD levels, whereas during the early years of reform and in less stabilized economies, it was often a multiple of that level.

How much must a household pay to sustain its housing status? In comparative terms this is probably best expressed in terms of the percentage of household income spent on housing. If housing costs absorb a larger portion of household income, less money will be available for food, clothing, and other discretionary expenditure. Housing costs need to be explored in the home ownership, public and private rental sectors.

Choice. The extent to which households have choices in their housing is an important aspect of housing satisfaction, as is the range of tenure options. Processes by which housing units are allocated to households without providing for household discretion are likely to be less satisfying, than processes which allow households' discretion. It is, however, far too simplistic to conclude that public sector housing involves less choice than private sector provision. Choice in the marketplace is determined by the ability to pay for housing services and private sector provision may be highly constrained due to low income. Choice also implies a diversity of tenure options and might be quite difficult in a system dominated by high rates of home ownership (Tsenkova, 2000).



Illegally constructed housing in Kalugerica, Belgrade: the home of 50,000 people today.

Equity. Housing and neighbourhood quality and cost, as well as choice are not likely to be equal for different households. In fact, inequalities in housing consumption have become a salient feature of the transition to markets and are likely to increase in the future. Privatization of public housing has become one of the largest sources of such inequalities in cities. The extent to which those vary by such characteristics as income, age, ethnicity, and tenure status provide a measure of the equity of a nation's housing system. Who loses and who gains in the system is a crucial question (Hegedus and Tosics, 2003; Tosics, 2003). At the extreme, some households may have great difficulty in

obtaining any access to housing at all, or in retaining housing once they have become home owners. The ultimate expression of inequality is expressed in homelessness.

3.3 The framework applied: evaluation of housing policies

Like Angel (2000) and Buckley and Tsenkova (2001) this study considers policy indicators along three dimensions: fiscal, financial and real sector policies.

Real estate policies

Perhaps the hallmark difference between housing systems in socialist and market economies is the role the public sector played in ownership and control of housing assets. A transition to a market based system implies a higher degree of private ownership over real estate assets, including housing, no restrictions on market exchange and less state (public sector) involvement in the provision of housing services (Clapham et al., 1996; ECE, 1997). The indicators in this category are designed to also measure the degree of competition in the supply of new housing and the provision of land, as well as the development of market-based structures to operate and maintain the existing stock and deal with property rights registration.

In addition, an important aspect of a nation's housing system is the extent to which legal arrangements and operational practices- regardless of tenure conditions permit a dwelling to be perceived as a 'home', belonging to and under the control of the resident, permitting a say in the management of the property, and providing secure occupancy and freedom from the fear of eviction.

Fiscal policies

Fiscal indicators that measure policy outcomes can either be direct expenditures of the government, positive or negative (i.e., a tax), or indirect, such as rent control, and distributed in accordance with various levels of efficiency, transparency, and distributional equity. Improved housing subsidy transparency would enable better targeting and accountability of public funds. It would also provide a clearer signal to renters, homeowners and others in the private sector. Finally, and for transition economies perhaps the most important measure, is the sustainability of the level of subsidies. How big a share of GDP is provided for housing subsidies? Can this level be sustained within overall government budgets as these economies reduce the scale of government in the economy? What types of subsidies can be most efficient and equitable? (Struyk, 2001).

Financial policies

Financial indicators measure the availability of long-term financing for housing, the diversity of mortgage products. They also explore the relationships of housing and mortgage markets and the implications for the economy. Housing purchases and/or improvements require either long periods of savings, access to borrowing, or subsidies. In a number of transition economies, the last pattern seems to dominate. Our measures focus on the legal basis for long term finance and the competitiveness and links to government guarantees or ownership of the financial institutions. The latter has been important in most transition economies, as they have generally followed what has been described as a mono-banking system, in which one bank mobilized most of household savings (Renaud, 1996). Fluctuations in interest rates can have a profound impact on housing costs and investment. Inefficiencies of mortgage institutions can be measured by the spread – the margin between interest rates on mortgages and deposits.

3.4 Organization of the study

The conceptual framework for comparative evaluation of housing systems in this study links housing market performance with policy intervention. Several broadly defined clusters of market outcomes critical for a well functioning housing system will be investigated:

- *Distributional efficiency*
- *Improvement of housing quality*
- *Stability of investment & production*
- *Differentiation of house prices/rents in the residential environment*
- *Affordability and choice.*

These market outcomes are linked to major policy indicators along three dimensions: fiscal, financial and real estate policies. Regional policy outcomes will be evaluated with an emphasis on progress towards the achievements of:

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

The study is intended to be a resource for housing policy makers and practitioners in formulating a practical approach to the comparative evaluation of housing reforms in South East Europe. It is organized in several parts. *Part one* sets the objectives and the methodology for the study and develops a conceptual framework for comparative evaluation of housing systems that links housing market performance with policy intervention. Important factors that influence the performance of housing systems in the region – economic, political and social are analysed. This contextual information sets the stage for the evaluation of housing reforms in *Part two*. The emphasis is on change and progress in the development of institutions, legislation and different housing policy measures to assist access to affordable housing and more effective operation of housing markets. *Part three* uses a series of housing market indicators to evaluate progress in distribution and quality of housing, tenure choice, and affordability. *Part four* explores in more detail responses to major housing policy challenges in the region – asset management of multi-apartment housing, provision of public (social) housing, refugee-related housing needs and developments in housing finance. These insights from the comparative analysis are brought together in the concluding comments on challenges and opportunities for housing reforms in South East Europe.

5 EXTERNAL FACTORS INFLUENCING THE PERFORMANCE OF HOUSING SYSTEMS

5.1 The political transition

South East European countries have experienced some economic growth and major progress in advancing their structural reform agenda in the last decade. The growth trajectory across the region has been uneven, however countries have been able to maintain macroeconomic stability and sustain political reforms towards democratic governance. The political landscape today is diverse underpinned by widespread political rights to participate in multiparty elections and a range of civil liberties, which have taken root in the region. Within the past decade, the countries in South East Europe have been beleaguered with military, economic, and political crises and conflicts including the pyramid schemes of Albania, the Kosovo/UNMIK and Macedonian conflicts, and the serious debt burden of Serbia and Montenegro (European Commission, 2004). These external and internal shocks have impacted neighboring countries through influxes of refugees, disruptions in transport and trade, and loss of investor confidence. Reportedly today civil unrest has been overcome and the political balance has allowed economic growth and some regional cooperation. However, in Bosnia and Herzegovina, Serbia and Montenegro and Croatia, over one million people are still without a permanent home after they were displaced internally or across countries during the years of conflict.

Despite progress in political stability, a major challenge in the region is to build strong public institutions capable of providing the public goods needed for a functioning market economy, as well as to improve public sector management, and address organized crime and corruption. Progress in this field will be essential for effective legal and institutional framework and economic development. It should be acknowledged that the reform process in Bulgaria and Romania is much more advanced; these countries are expected to become members of the EU in 2007.

5.2 The economic transition

South East Europe is a diverse region of 60 million people, with an average income per capita ranging from US\$460 in Moldova to US\$4,640 in Croatia. Data on GNI per capita demonstrates significant inequality across the region.

Table I-1 - Land, population and economic size

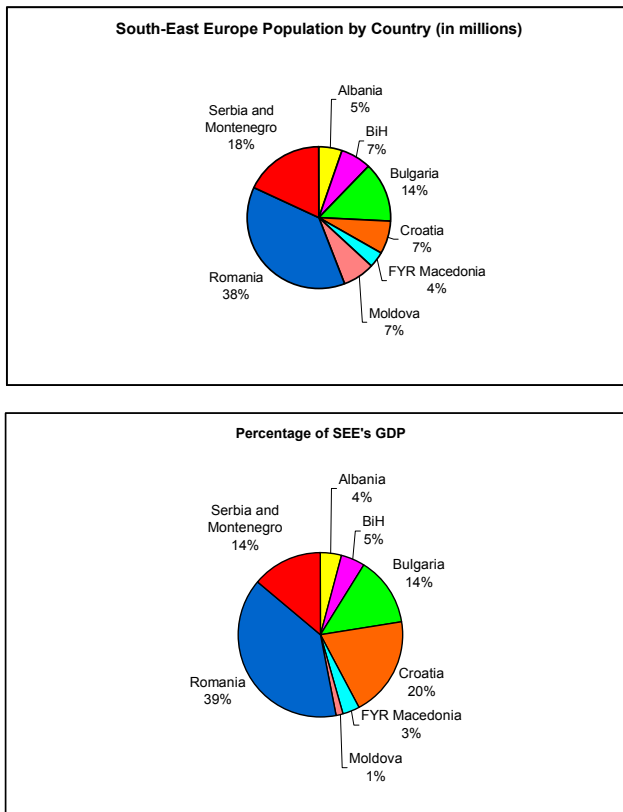
	Total Area (sq km thousand)	Population, 2002 (million)	GDP, 2002 (current \$ billion)	GNI per capita, 2002 (Atlas \$)
Albania	28.8	3.2	4.8	1380
Bosnia and Herzegovina	51.1	4.1	5.2	1270
Bulgaria	110.9	8.0	15.6	1790
Croatia	56.5	4.4	22.4	4640
Former Yugoslav Republic of Macedonia	25.7	2.1	3.7	1700
Moldova	33.9	4.3	1.6	460
Romania	238.4	22.4	44.5	1850
Serbia and Montenegro	102.2	10.7	15.7	1400
Total	647.5	59.2	113.5	

World Bank, 2003: World Development Indicators 2003

The average regional GNI per capita in 2002 was about US\$2,200 (Table I-1). The past decade of transition and conflict has left the region with a legacy of inadequate growth and declining living standards. Since the end of the Kosovo crisis in 1999, economic growth has resumed with 5 percent per year and both private and public institutions have been strengthened.

Romania and Serbia and Montenegro have the largest resources, both in terms of land and human resources, Figure I-3 presents these indicators including share of regional GDP for each of the eight countries using 2002 data. Romania is by far the largest country in the region with 38 percent of the population and 39 percent of the regional output of US\$113,5 billion. Different countries contribute differently also due to different levels of economic development, which translates into different levels of GDP per capita. Former Yugoslav Republic of Macedonia is the smallest with 4 percent of the population (and territory) and 3 percent of GDP. Croatia is a notable exception with a significant mismatch between relative share of human resources and economic performance. These crude benchmarks indicate the overall competitiveness of the Croatian economy and its growth prospects, while in the case of Moldova – these are signs of poor performance.

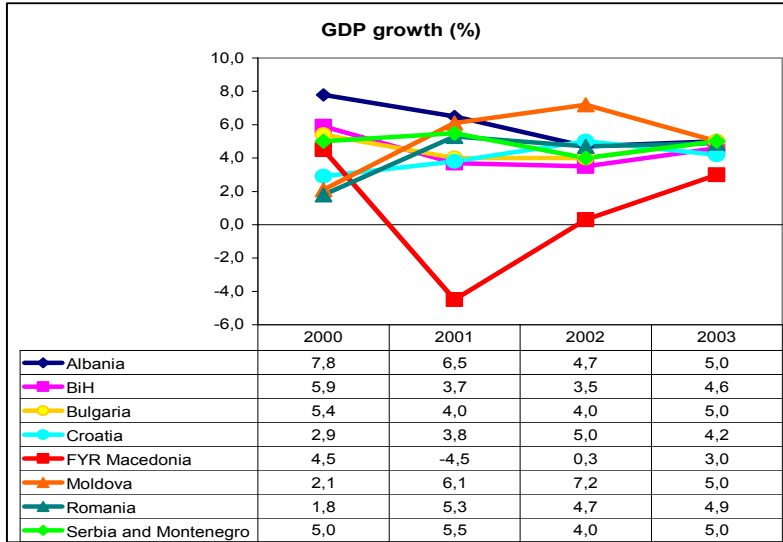
Figure I-3 Regional distribution of population and GDP, 2002



On the positive side, economic performance over the past few years suggests that South East Europe is firmly on the recovery path. For the region as a whole, GDP growth is converging around 5 percent per year, well above the average in the EU (Figure I-4). Some of the fastest growing economies today, like Former Yugoslav Republic of Macedonia and Serbia, in fact have had the worst overall performance in the last decade. After a decade of conflict, stagnation and economic decline, Albania is the only country with GDP higher compared to the level in the early 1990s, while

Croatia, Bulgaria and Romania are pretty close to the pre-reform level (ECE Economic Survey of Europe, 2004). The other countries are still grappling with the transition recession and high budget deficits. Large inflows of aid have been critical for this economic recovery, particularly in countries affected by the war in 1995.

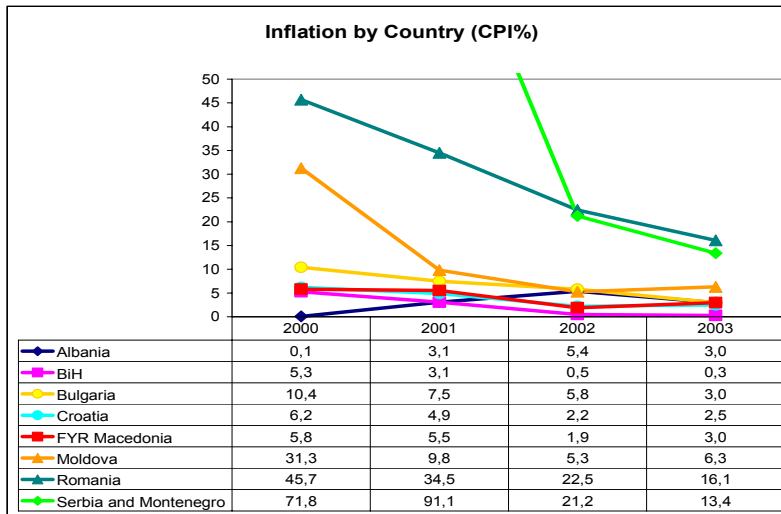
Figure I-4 Regional GDP growth, 2000-2003



Source: World Bank Sarajevo Office 2003

Significant progress has also been made in reducing inflation. Albania, Bosnia and Herzegovina (BiH), Croatia and Former Yugoslav Republic of Macedonia have maintained single digit inflation over the past four years. The situation in Romania, Serbia and Montenegro is more problematic with rates as high as 13 and 16 percent in 2003 (down from 20 percent in 2002). The downward trend in inflation has continued reaching an average of approximately 7 percent for the region in 2004 (EBRD, 2004).

Figure I-5 Regional trends in inflation, 2000-2003



The importance of the private sector, dominated by small and medium-sized enterprises, is growing in all SEE countries. Private sector share in GDP exceeds 65 percent in Romania, Albania and Bulgaria (Table I.2). Privatization of state enterprises, banks and services has pushed these shares in Croatia and Former Yugoslav Republic of Macedonia over the past two years. Foreign inflows, although relatively modest compared to the other transition economies, play a crucial role in providing a source of finance for new investment. In Croatia, for example, cumulative foreign direct investment per capita is eight times higher than the rates in Albania or Bosnia and Herzegovina. Annual foreign direct investment flows were estimated at 4 percent of the regional GDP in the period 2000 – 2002. Although recent years have seen an improvement in the investment climate, businesses perceive access to finance to be problematic and the legal environment less conducive to business development.

It should be noted that countries in the region are at very different stages of development and the transition in Kosovo/UNMIK is in its initial stages (see Box I-1). The state still accounts for a relatively large share of economic activity due to delays in industrial privatization, particularly in Bosnia and Herzegovina, and Serbia and Montenegro. A characteristic feature is *the size of the informal economy* in South East Europe, which according to some estimates is fairly similar across different countries. The ratio of the shadow economy to GNP in most countries is about one third.⁶ Moldova and Former Yugoslav Republic of Macedonia have a ratio closer to one half, while Serbia and Montenegro surprisingly have the lowest share under 30 percent.

Table I.2 – Major macroeconomic indicators in South East Europe

	Private sector (2002) Share in GDP*	FDI (Euro)** 1997-2003	FDI (2002)** Per capita	Unemployment % (LFS) 2003	Informal economy %GDP***
Albania	75	112	36	14.0	33.4
Bosnia and Herzegovina	45	147	37	40.0	34.1
Bulgaria	70	-	-	18.0	36.9
Croatia	60	1129	254	15.0	33.4
Former Yugoslav Republic of Macedonia	60	137	68	30.0	45.1
Moldova	50	-	-	-	45.1
Romania	65	-	-	9.0	34.4
Serbia and Montenegro	40	405	50	15.0	29.1

Notes: *EBRD Transition Report 2003

**European Commission, 2004, The Western Balkans in Transition

***Data refer to 2001; estimates by Schneider, 2002

⁶ A broad definition would encompass both legal and illegal activities. The former includes behaviour that would be legal, if it were reported to the authorities and taxes and other charges paid. The latter would include smuggling of goods and people, fraud, prostitution, organized crime, possibly involving barter rather than monetary transactions. Schneider (2002).

The economic restructuring in the region has proceeded with major shifts in economic activities – from manufacturing to service based economies. In addition, as a result of state enterprise privatization, loss of traditional markets and lower output, unemployment has escalated and is one of the highest in Europe. Even if the existence of large informal markets is taken into account, the level of unemployment is higher than 15 percent with the exception of Moldova and Romania. In Bosnia and Herzegovina as well as Kosovo/UNMIK unemployment exceeds 40 percent (Table I-2). Although there is no consistent pattern concerning the relationship between gender and unemployment, it does seem clear that it the younger generation experiences disadvantages in the labour markets and longer-term unemployment.

Box I-1 The impact of the crisis in Kosovo/UNMIK

After the devastating 1999 conflict and outbursts of violence, the gradual transfer of competencies from the UN to the Kosovo Provisional Institutions for Self-Government (PISG) in 2002 seemed to mark the beginning of a period of normalization in Kosovo. PISG and the UNMIK jointly launched in December 2003 the *Standards for Kosovo*, which set a clear benchmark in terms of governance and treatment of ethnic minorities. PISG must implement the Standards and progress will be reviewed by the UN Council in 2005.

The political conflict has had devastating effects on Kosovo's economy. The GDP per capita is the lowest in the region (658 euros) and 61 percent of the households report less than 200 euro per month. Growth is mainly driven by foreign assistance (close to 50% of GDP in 2002), remittances from abroad (30%) and public spending. Unemployment, which reaches 47 percent (69% among those aged 20 to 24) is a major concern.

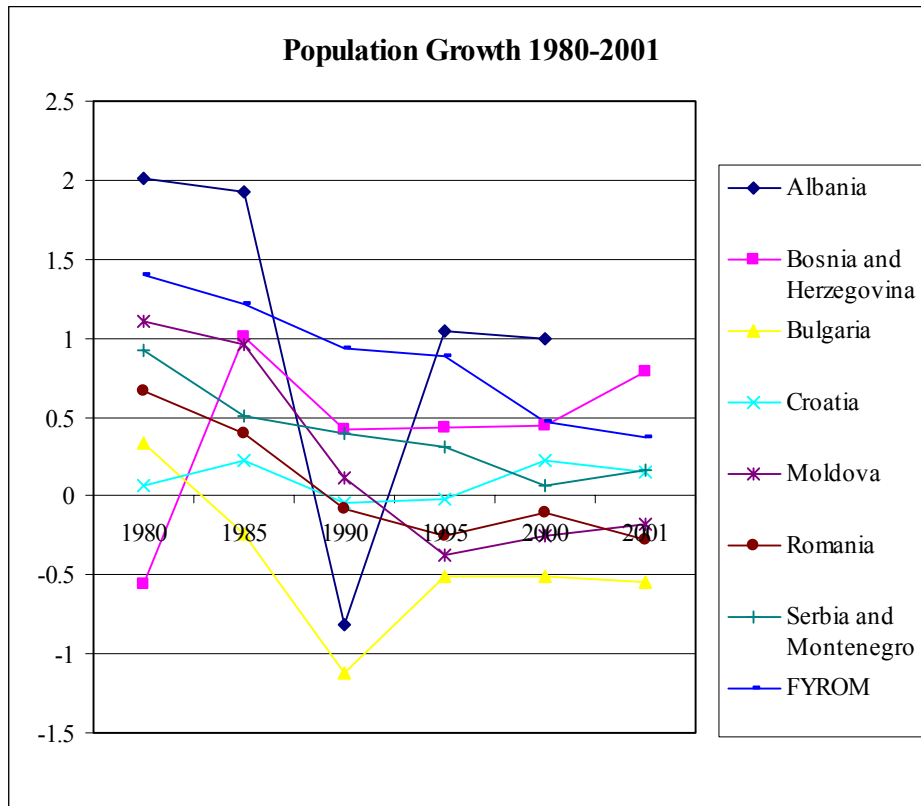
Many Kosovars still live in makeshift tents and temporary housing outside cities. Close to 30 percent of the housing stock was badly damaged in the war. The harsh economic conditions, the damage of infrastructure and housing has caused massive migration to cities in search of shelter and jobs. Prishtina, for example, increased its population from around 250,000 to 600,000 people.

Source: *Registra et al, 2004b*

5.3 The social transition

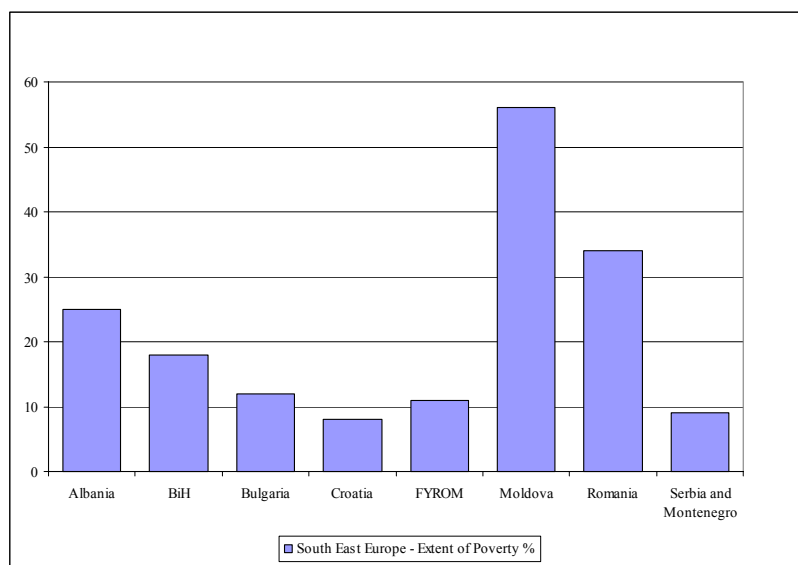
The number of refugees has grown rapidly in the last decade creating significant social challenges. The break-up of the former federation of Yugoslavia led to military conflict and violence in the Balkans. War-affected countries have suffered major economic and social shocks with long-term divisions in society, often along ethnic lines (UNDP, 2003). Displaced people as a result of conflicts in Bosnia and Herzegovina are estimated to be 2.5 million and in Kosovo/UNMIK alone over 1 million.

Notwithstanding the social stress in war affected countries, population growth in the region has remained modest over the last two decades and stands at less than 0.5 percent (Figure I.6). Bulgaria, Moldova and Romania have experienced years of negative population growth, a result of emigration, lower reproduction rates and responses to economic hardships.

Figure I.6 Regional trends in population growth, 2000-2003

Source: Council of Europe. 2003 *Recent Demographic Development in Europe*

While at the start of the reform poverty in South East Europe did not exist, today the share of poor people is alarmingly high in Romania (34%) and the Republic of Moldova (58%). Figure I-7 shows the most recent estimates of the incidence of poverty in each of the countries according to the most recent *World Bank Poverty Assessments*. The move towards market economy and democracy has failed to deliver uniform benefits to all countries in transition and/or to all social groups. It is widely acknowledged that the second generation of policy reforms is driven by a more sober reflection that market failures need to be addressed in a more efficient way and that the social protection of vulnerable groups is perhaps the most important aspect of public policy intervention (Tsenkova, 2004c; World Bank, 2002). Groups at risk are long-term unemployed, large or one-parent families, people with low education, also increasingly ethnic minorities, with particularly deep poverty pockets among Roma communities. Some of the common drivers are unemployment, regional inequalities and inadequacy of the social protection systems.

Figure I-7 Poverty in the region

Source: World Bank Country Office Sarajevo, 2003

Another important aspect of the social transition is associated with *urbanization and the process of urban change in the region*. South East European countries have the lowest urbanization rates in Europe. The average level of urbanization in the region is 55 percent, much lower than the EU average of 80 percent.⁷ Bulgaria and Former Yugoslav Republic of Macedonia have the highest concentration of urban population exceeding 62 percent. Figure I.8 maps these patterns across Europe and the region.

Table I.3 – Major demographic indicators in South East Europe

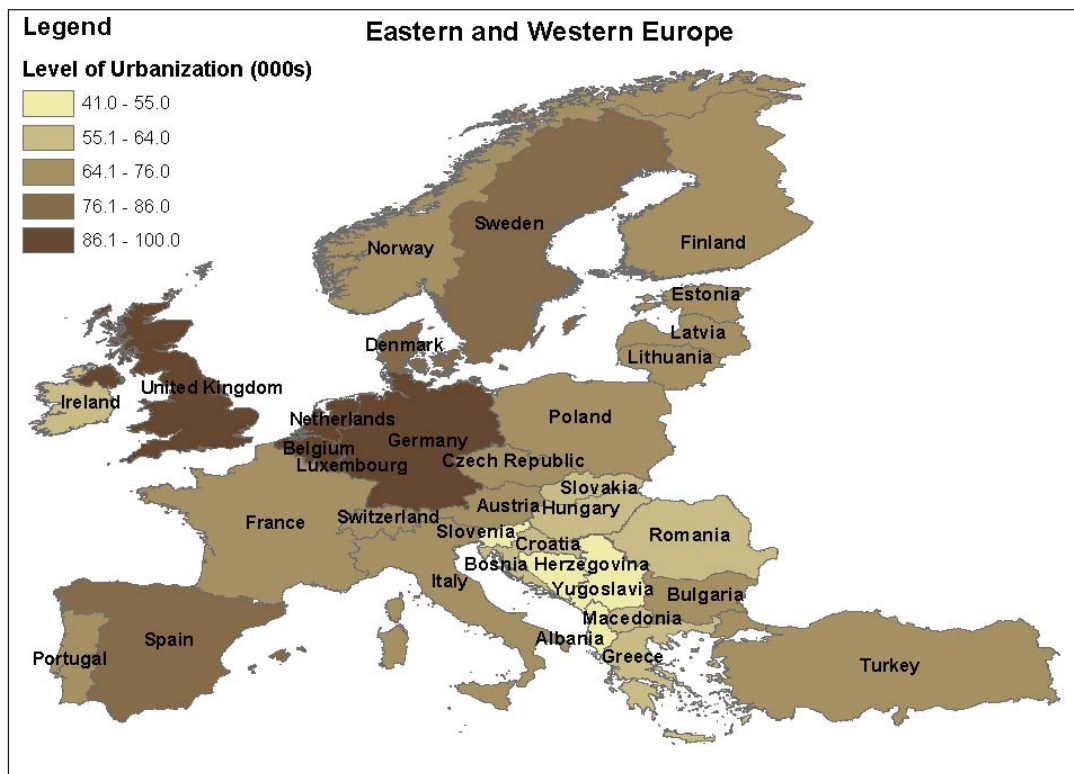
	Population Age Groups				Urban population	Urban population	Annual growth
	0-14	15-44	45-64	65+	(% total)	Millions	(%)
	2002*				2000	2000	2000-2015
Albania	32,2	44,7	17,6	5,6	41.2	1.2	2.1
BiH	29,9	43,3	21,7	7,4	43	1.7	1.8
Bulgaria	14,6	41,8	26,5	17,4	69.6	5.7	-0.1
Croatia	16,6	41,4	25,7	16,3	57.7	2.5	0.5
Former Yugoslav Republic of Macedonia	29,6	49,7	15,3	5,5	62	1.2	
Moldova	20,7	47,9	21,6	9,8	46.1	2	0.7
Romania	17,0	44,8	24,0	14,2	56.2	12.5	0.3
Serbia & Montenegro	19,5	42,8	23,7	14,1	52.2	5.5	0.8

Source: Based on data from UN Population Projections, 2003

⁷ There is a strong link between urbanization and levels of economic and human development – globally countries with rates of urbanization above 70 percent have well developed economies and higher Human Development Index (UNDP, 2003). Although this is not necessarily the case with the countries in transition some with high urbanization levels (Russia, Bulgaria, and the Baltic States).

With the exception of several capital cities – Bucharest, Belgrade and Sofia with population over 1.2 million, the main cities in the region tend to be under 800,000 with medium densities, and stable or low-growth population (growth rates under 1%). Close to 45 percent of the urban population lives in medium-sized cities with population ranging from 100,000 – 200, 000 (HABITAT, 2002). The urban population of close to 32.5 million is projected to growth in the next 15 years, despite the overall population decline in most countries. As the data in Table II-3 indicate, Albania, Bosnia and Herzegovina are the countries with projected annual urban growth in the range of 2 percent. In demographic terms, the region is rather diverse. The typical aging of the population observed in Europe is certainly a major trend in countries such as Bulgaria, Croatia and Romania, where the share of the population over 65 years is closer to the EU average. Most of the other countries in SEE however, have a relatively young population with the share of children (0-15) being one third of the population in Albania, BiH, Former Yugoslav Republic of Macedonia and close to one fifth in Moldova. Such demographic mix, coupled with population growth in cities, is likely to generate significant housing demand in the future.

Figure I-8 Urbanization in Europe, 2001



Source: Based on data from UN Population Projections, 2003

Despite the lower level of urbanization, cities in the region have remained the centers of economic growth, technological innovation and cultural diversity and continue to attract business and households. However, in many countries social protection has declined considerably and fiscal

constraints have eroded the quality of social services. These challenges have become particularly significant in large urban centers where the decline in living conditions is accompanied by rapid social polarization, poverty and environmental degradation (Tsenkova, 2004c). *The rise in urban poverty is one of the most serious concerns in the region.* While poverty, social exclusion and inequality are much more pronounced in the rural areas, they have become an integral part of the social landscape of small and medium sized cities in South East Europe. The urban poor are especially vulnerable to economic shocks; they lack access to services, safety nets, and political representation. Cumulative disadvantages, often defined along the lines of gender, age and ethnicity, create widening social differences between different social groups with low income, single parent, or women-led households becoming worst off.

4.4 Concluding comments

In conclusion, while recognising the differences among the countries of South East Europe, this analysis has highlighted several common themes and issues pertaining to the political, economic and social transition in the region. Despite *progress in political stability*, a major challenge in the region is to build strong public institutions capable of providing the public goods needed for a functioning market economy, as well as to improve public sector management, and address organized crime and corruption. *In the economic realm* the greatest progress has been made by EU candidates Bulgaria, Romania and Croatia. All three countries have made significant gains in overhauling their banking sector and infrastructure, while Bulgaria and Romania have both undertaken large-scale privatisation. Despite some successes leading to GDP growth and reduced inflation, however, the commitment to reform appears to be wavering in much of the region. The high degree of activity in the informal sector and the relative weakness of investment flows as well as corruption and institutional reform are major problems in the region. The roadmaps for Bulgaria and Romania advanced by the European Commission concentrate on administrative and judicial capacities, economic reform and the chapters of the *Acquis*.

In the social realm the growing number of refugees and internally displaced people has created significant social challenges. War-affected countries have suffered major economic and social shocks with long-term divisions in society, often along ethnic lines. Notwithstanding the social stress in war affected countries, the region has experienced years of negative population growth, emigration, and rapid increase in poverty. Overcoming unemployment, in particular youth unemployment, remains one of the region's greatest social and economic challenge and failure to achieve progress may threaten political stability.

II HOUSING REFORMS IN SOUTH EAST EUROPE

1 MAJOR HOUSING POLICY DEVELOPMENTS: CHALLENGES AND OPPORTUNITIES

1.1 The first phase of housing reforms

Following the political changes in 1989, various reform initiatives were carried out in the region to transform the housing sector. Housing reforms were motivated by pressures to reduce budget deficits and to move away from macro regulation and direct subsidization of housing supply to a market-oriented housing sector. It should be recognized that different points of departure had a considerable impact on choices and reform strategies.

In general terms housing reforms in the first stage of the transition focused on strengthening market forces and reducing state intervention in the housing system. Those policies promoted deregulation, increased the role of private sector institutions and reduced public expenditure. The reform also involved the privatization of public assets -- public rented stock and state construction enterprises. The practical implementation of housing reforms in the different countries is directly related to the new directions in housing policy, the process of economic restructuring and the wider context of social and political change. Risking oversimplification, this analysis will focus on the most significant reform measures in the transformation of the housing sector:

- privatization of public housing
- deregulation of housing markets and restructuring of subsidies
- privatization of state construction enterprises.

Privatization of public housing

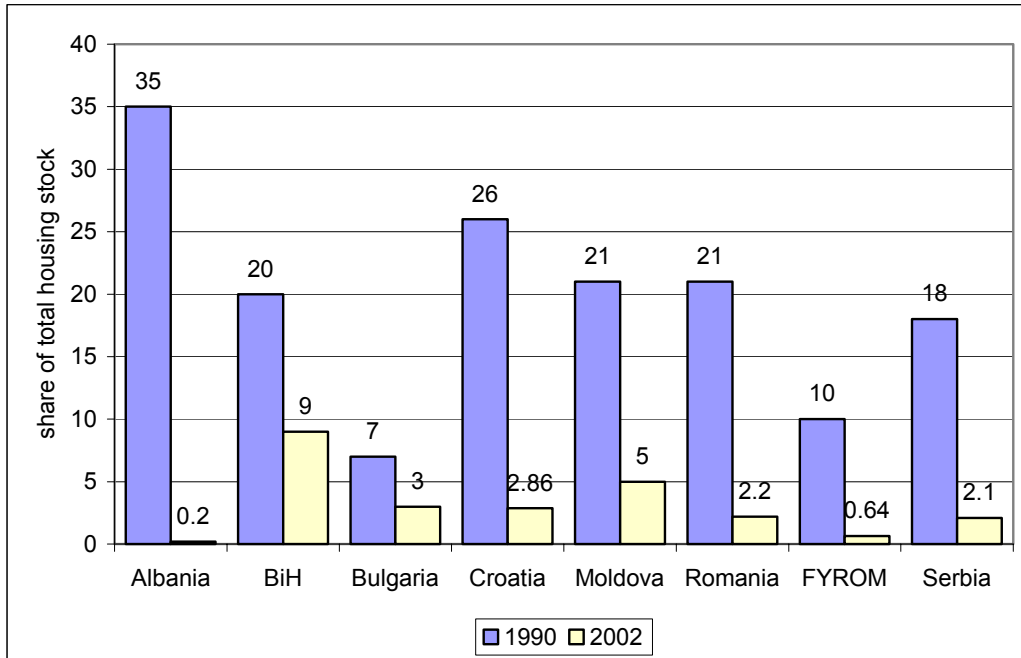
A number of forms of privatization have been implemented: sale of public housing, restitution and conversion of co-operatives into condominiums.

Sale of public housing. Reform strategies mainly differ with respect to the price at which dwellings were sold to existing tenants. They can be grouped into the following categories: voucher privatization (BiH), privatization free of charge (Albania, Moldova)⁸, and low-price privatization (Bulgaria, Romania, Serbia and Montenegro). The extent of sales has varied considerably both within and between countries. The low-price strategy, typically at less than 15 percent of the real market value of the dwelling unit, created a flood of sales. Privatization progressed rapidly in

⁸ In Moldova a fixed amount of living space is provided free, but high prices are charged on any extra space. In Albania a symbolic fee was applied which differed with respect to location and age (e.g. it was higher for ground level apartments and reduced to zero in case of apartments older than 20 years).

Albania, Bulgaria, Moldova and Romania. Despite its late start in BiH more than half of the socially owned housing has been privatized. Regarding the size of ownership transformation since 1990, the “fore-runners” are Albania, Croatia and Romania; starting from a low level of public ownership, Former Yugoslav Republic of Macedonia sold 90 percent of its public housing, while Bulgaria sold half (see Figure II-1).⁹

Figure II-1 The privatization of public housing in the region, 1990-2002



Source: Hegedus and Teller, 2003 (data for 1990); Tsenkova, 2005 (data for 2002)

Restitution Apart from Albania, Bulgaria and Croatia, restitution has not been an issue in the other countries in South East Europe. Tenants of state-owned, property built before 1950 found themselves being tenants of a private landlord, which reportedly creates a lot of tension between tenants and new landlords. The restitution had some impact on the inner parts of towns and cities in Bulgaria (5%), Albania (3%) and Croatia (4.2%).

The transformation of cooperatives into condominiums is another aspect of privatization in countries which were part of former Yugoslavia. Although the sector was relatively small, the legislation in 1992 allowed the conversion to entities where owners have exclusive ownership of the unit and a stake in the common areas in proportion to the floor space of their flat.

The discount policy has given rise to concerns about the distribution of wealth in transition countries (Clapham *et al*, 1996; Hegedus and Tosics, 2003). While the general view is that privatization has shifted wealth towards a great part of the private sector, it has increased social inequality. Among the losers are typically households in the waiting queue for housing, but also those with a low or even negative value of their dwelling as a result of inferior quality, requiring high repair and

⁹ In Former Yugoslav Republic of Macedonia there is a moratorium on privatization, two thirds of the 5,000 public housing units have the legal status of controlled rents.

maintenance costs. On the other hand, uniform prices allowed privileged households to acquire considerable wealth at insignificant cost.

Deregulation of housing markets and restructuring of subsidies

In the general restructuring of the housing system along market principles, the administrative distribution of owner occupied housing has been replaced by market allocation and restrictions on housing consumption have been abolished. More importantly, reforms have dramatically expanded property rights of home owners, permitting free property transactions at market prices. Traditional perceptions of housing supply and demand were transformed by the emerging housing and land markets. Price controls over housing, construction and land prices were abolished resulting in escalation of housing related costs. Economically constrained governments were pressed to reform housing budgets in a radical way. Five main types of changes can be distinguished: i) elimination of production subsidies, ii) reduction of public investment in new housing construction, and iii) elimination of universal subsidies for homeowners (e.g. mortgage or maintenance subsidies).

Privatization of construction enterprises

The privatization of construction and building materials enterprises was undertaken in all South East European countries although at varying paces and in different ways. Models of privatization adopted were based on those employed in other industrial sectors, such as employee buy-outs or the creation of large state investment funds to hold shares. Other means included sale of enterprises to foreign investors or other interests, and/or coupon sales where citizens were given vouchers which can be exchanged for shares. The privatization of large-scale, vertically-integrated, state-owned construction enterprises (*kombinats*) was completed very quickly due to the low demand for their product and lack of projects to ensure large scale production and economies of scale.

1.2 The second phase of housing reforms

The second phase of housing reforms in South East Europe since the mid-1990s has proceeded through 'trial and error', focusing on problems to be remedied rather than strategic intervention. This incremental style of policy action means that a number of limited options are supported and that the policy process is fragmented through devolution of power to a number of participants. In the spirit of incrementalism, policy evolves through complex and reciprocal relations between bureaucrats, politicians, and representatives of interest groups.¹⁰ There have been limited attempts to launch more strategic intervention. Albania has a *Housing Action Plan* approved in 2001 and Moldova developed its *Housing Strategy* in 1998, but it was never implemented. Croatia's attempt to get its Housing Strategy approved failed due to changes in government and Serbia's efforts to build consensus on social housing issues and further reforms has been jeopardised by political instability. In Bulgaria, after 15 years of neglect, the government approved a *Housing Strategy* in 2004 and several ambitious programs to deal with rehabilitation of existing housing.

Overall most countries in South East Europe today have a myriad of regulations and housing related initiatives that are not necessarily consistent and coherent with stated housing policy goals and objectives. *Despite some diversity of housing policy experiences, the reform path emphasizes less prominent controlling and subsidizing role of the state and a greater role of the market.* Generic

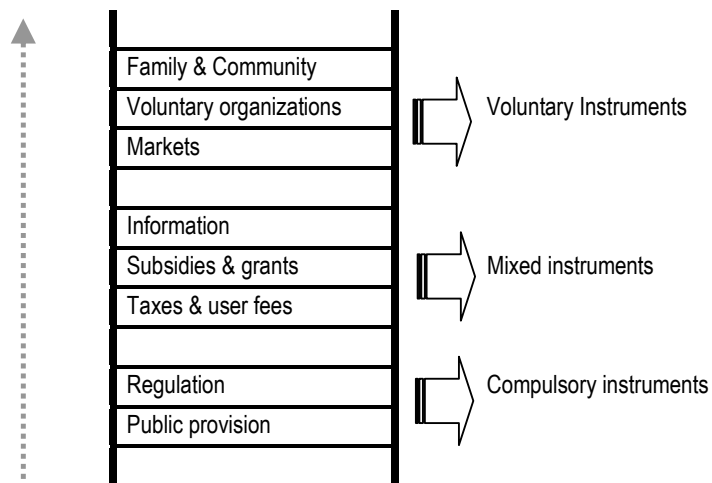
¹⁰ The 'trial and error' approach is contrasted to rational policy making. It is incremental in nature and does not imply fundamentally new approach thus reducing the uncertainty and errors (Lindblom and Woodhouse, 1993).

subsidies have been cut back and responsibilities for social housing devolved to local governments. However, new transfers have emerged, such as deductibility of mortgage interest or contract savings in Croatia and Romania. New programs providing public/social housing for low-income households have been introduced in Romania, Former Yugoslav Republic of Macedonia and Serbia. These developments sketched in broad strokes, are comparable elements of housing policy pursued in South East European countries. Yet, some specific arrangements, the timing of these instruments and the response of different housing systems, determine a range of 'enabling' housing market strategies.

Notwithstanding the diversity of arrangements, policy instruments can be grouped into the following categories: *voluntary* (community, non-profit, markets), *mixed* (information, subsidy, taxation) and *compulsory* (regulation and direct provision) (Doling, 1997; Howlett and Ramesh, 1995). It appears that the overall reform path followed by most countries in the last decade has been a move away from direct provision of housing services to reliance on voluntary instruments (housing markets, voluntary organizations (HOAs and coops) and self help. This reform trajectory can be presented through the ladder of policy instruments in Figure II-2.

Figure II-2 The ladder of policy instruments

Low level of state involvement



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

The direction of change is no doubt the same across the region, and the underlying elements are similar. However some countries have been more successful than others in designing and implementing housing reforms. In fact, notions of convergence do not really match the reality of

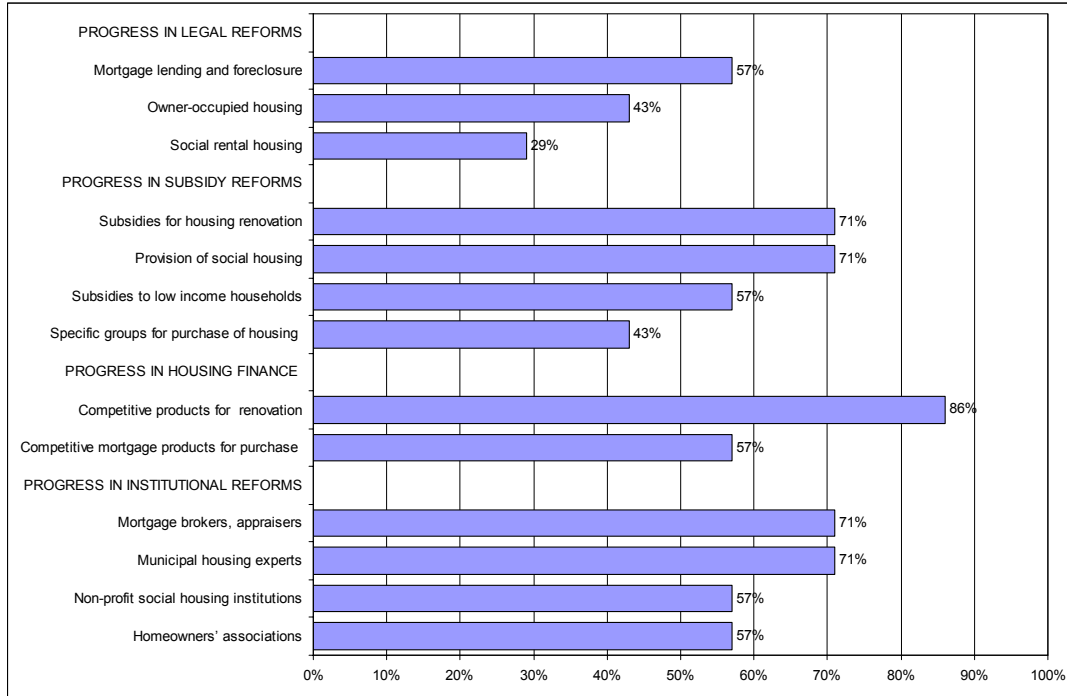
widening differences in the structure and operation of housing markets between Albania and Croatia for example, or Bosnia and Herzegovina and some of its South East European neighbors. The reform path can be summarized by the following clusters of actions:

- Institutional reforms enabling more efficient operation of market intermediaries and HOAs
- Legal reforms to establish a more effective framework for housing finance, property registration, and land management for housing
- Fiscal reforms and programs for management of public housing and social assistance
- Financial support for homeownership
- War-related housing and refugee programs.

These issues will be reviewed in a comparative perspective in the next sections with an emphasis on differences and similarities across countries in the region.

1.3 Progress and challenges in housing reforms

Figure II-3 Inadequate progress in housing reforms in South East Europe



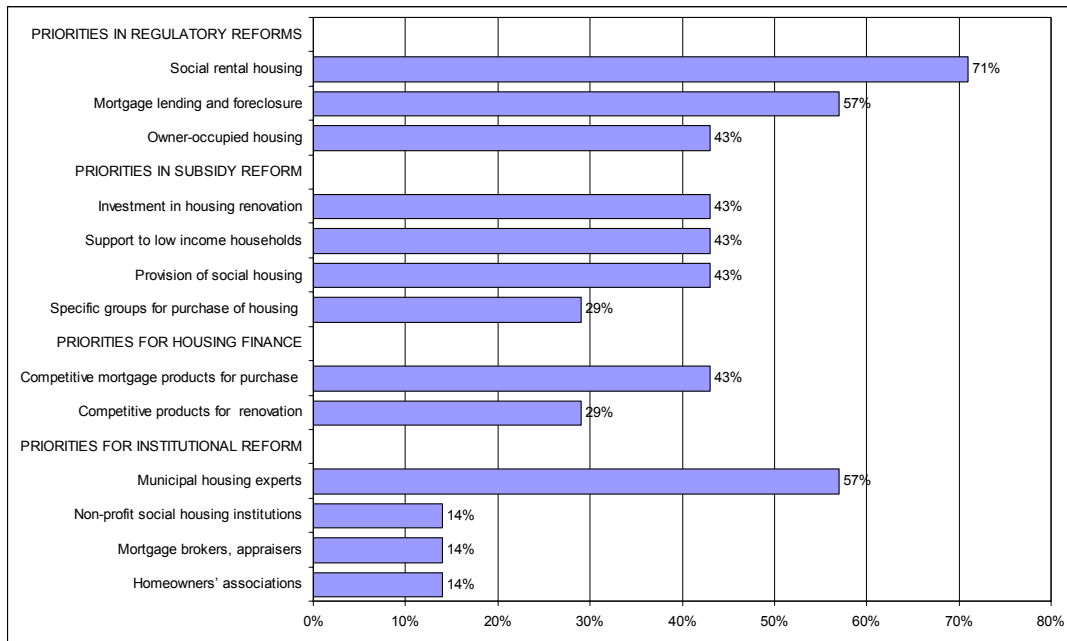
Source: Tsenkova 2004b Council of Europe SEE Housing Expert Network Survey, December.

The evaluation on progress and challenges in housing reforms is based on a survey administered to housing policy officials representing major government institutions in South East Europe Housing Expert Network of the Council of Europe (see Annex 1). The sample is small, a total of nine responses were received, so the results are not considered representative for the policy community in the region. Notwithstanding these limitations, the survey highlights important areas for housing reforms as well as major challenges.

Figure II-3 presents a summary **evaluation of progress achieved in four areas of housing reforms: legal, fiscal, financial and institutional**. Overall the ranking, measured by percentage of responses identifying poor performance of reforms, indicates inadequate progress in most policy

areas. Although significant progress has been accomplished in developing adequate legislation, the legal framework for mortgage lending and foreclosure is considered inappropriate. With respect to fiscal reforms, major concerns relate to the lack of subsidies for renovation as well as social housing (71% of respondents). Equally unsuccessful so far has been the institutional development of market intermediaries (mortgage brokers, property appraisers, real estate agents) and municipal housing experts. Not surprisingly, mortgage lending is viewed as the area where virtually no progress has been achieved (86% of respondents identify poor performance).

Figure II-4 Housing policy priorities in South East Europe



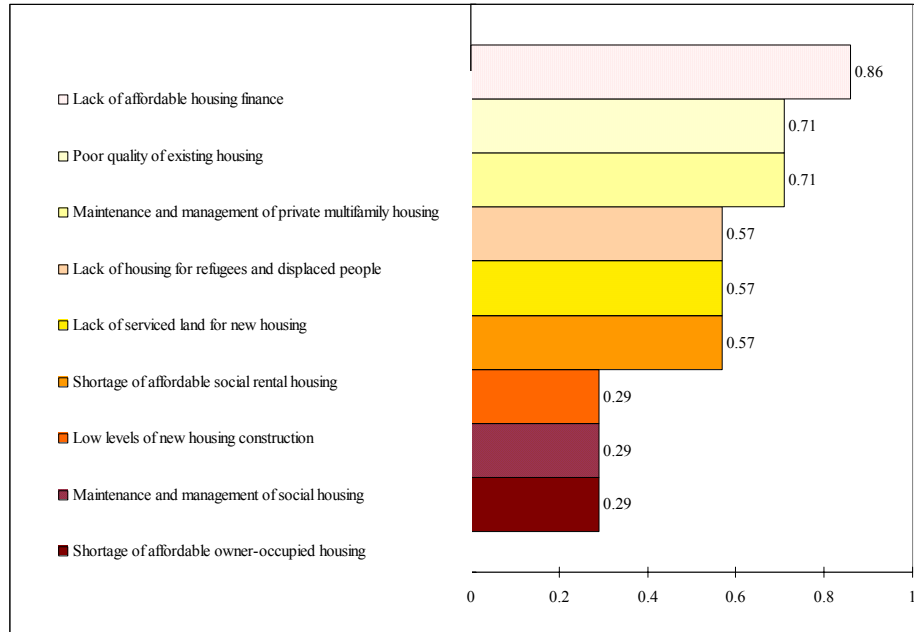
Source: Tsenkova 2004 b Council of Europe SEE Housing Expert Network Survey, December.

The second cluster of interview questions relates to **housing policy priorities in major policy areas**. Responses in Figure II-4 show the percentage of respondents who felt that intervention in these areas with a focus on selected measures was most important. First, there is a clear indication that more emphasis needs to be placed on legal and fiscal reforms. Second, the development of a legal framework for social housing seems to be a clear winner (71% of respondents), followed by legislation related to mortgage lending and foreclosure (57%). Third, in the area of fiscal reforms preferences for subsidy instruments for housing renovation, social housing and support to low income groups prevail (43% each). Fourth, in the area of financial reforms, competitive products for mortgage finance seem to be a priority, while in the area of institutional reforms - support for capacity building programs for municipal housing experts (57%).

Policy officials were asked to **prioritize major challenges for housing reforms** in their countries. The responses presented in Figure II-5 refer to share of respondents who felt that these issues were 'important' or 'most important' in housing policy. The order of priority suggests clearly that lack of affordable housing finance (86%), poor quality of existing housing and the maintenance and management of private multi-apartment housing (71% each) are the most significant challenges for housing reforms in the region. The next important set of issues relates to the lack of affordable

housing for refugees and socially disadvantaged people as well as constraints in access to serviced land for housing (57% of respondents).

Figure II-5 Major challenges for housing reforms



Source: Tsenkova 2004b Council of Europe SEE Housing Expert Network Survey, December.

2 INSTITUTIONAL REFORMS: DEVOLUTION, PRIVATIZATION AND PRIVATE SECTOR GROWTH

Until the 1990s private sector activities (excluding self-help) were virtually non-existent in most countries in South East Europe. New actors have emerged -- speculative house builders, real estate agents, private building firms and maintenance companies. Former participants have received new roles and responsibilities. Major change has occurred in the distribution mechanisms, where market allocation of housing has become dominant. Decentralisation and privatisation in the production and distribution of building materials occurred rapidly in most of the countries, while the construction sector has been relatively slow to adjust, particularly in Bulgaria and Moldova where the industrial privatization has been delayed. The supply of land and housing finance, the most controlled elements of socialist housing provision, have been deregulated (with the exception of Serbia and Moldova). Governments have replaced bureaucratic allocation of housing with market mechanisms. On the supply side this has resulted in a shift to private sector promotion and production of owner-occupied housing and private maintenance and management.

The institutional transformation in the housing sector is embedded in the overall economic, political and institutional restructuring of individual countries. In particular, fiscal austerity and economic uncertainty have affected the operation of central and local governments in the region and their ability to formulate and effectively implement housing policies. The public sector overall is playing an enabling role in housing with major responsibilities centred on legislative reforms. Local governments in some countries have acquired important responsibilities related to public housing (Bulgaria, Moldova, and Romania). In addition, responsibilities for refugee related programs and post-war reconstruction in Croatia and BiH require a much more significant commitment from governments, both at the local, entity and central level.

2.1 Public sector institutions in housing provision

2.1.1 Central government

The responsibility for housing policy in South East Europe is typically given to the ministries responsible for public works, construction and spatial planning. The need for coordination among the departments dealing with the different aspects of the housing sector as well as with other line ministries -- Social Welfare, Finance, Local Government, and Justice -- presents a complicated task. Financial ministries have the decisive role in housing policy and determine the allocation of resources for the sector, either in the state budget process or through the transfers to local governments. Some demand-based assistance for housing purposes is also included in the overall system of social assistance. In other words, the "housing ministries" typically do not control a large range of policy instruments and need to work with a number of other ministries to achieve real change.

Box II-1: Key central government institutions in housing

In **Albania** the Ministry of Territorial Adjustment and Tourism is responsible for the preparation of housing policy. The Housing Department is composed of four experts and the Director. In **Romania** the Ministry of Public Works, Transports and Housing with four major subdivisions is responsible for legal reforms in the area of housing, urban planning and management and real estate cadastre. In **Croatia** the Ministry of Public Works, Reconstruction and Construction is the leading institution in the area of

housing policy with three departments: (1) Department for Housing, Building and Housing Construction, (2) Department for Reconstruction: (3) Department for Displaced and Dislocated Persons. In **Serbia**, housing responsibility is given to the Ministry of Capital Investments with a task to prepare programs, legislation and housing construction important for the Republic of Serbia. In **Former Yugoslav Republic of Macedonia**, the Ministry of Transport and Communication is responsible for housing, and the Public Enterprise for Housing is responsible for the execution of government programs. In **Bulgaria**, the Ministry of Regional Development and Public Works has the leading role on housing matters. In **Kosovo/UNMIK** the Ministry of Environment and Planning is the major institution with responsibilities for housing legislation and monitoring of donor assistance in the area of housing.

National housing agencies

New national housing agencies have been established in several countries to facilitate the implementation of housing policies and/or deal with specific housing problems. In Albania, Croatia, Moldova and Romania these agencies act as housing developers using budget resources, public land and donor funding to solve urgent housing problems (e.g. completion of unfinished housing, compensation of tenants in housing subject to restitution, etc.). Although the mandate of these national housing agencies was much broader including institutional support to condominium associations, research on housing issues, and development of new mechanisms for affordable housing, most of the current operations have focused on new housing construction with limited degree of targeting. Redefining their role in the long-term might be necessary due to the unfair competition with the private sector in the areas of housing construction and finance.

In **Romania** the National Housing Agency was set up in 1999. This is an off-budget government institution designed to manage government subsidized housing programs. In the *National Strategy for Housing* for 2001-2004 the government housing policy aimed at (1) mitigating the ratio between the market price of housing and the average family income; (2) facilitating the access to the market for specific categories, especially young individuals and families; (3) Providing incentives for private investment in housing; (4) Enhancing the role of the National Housing Agency as a developer and a housing lending institution. But funding the program is a question of politics and budgetary allocation (Council of Europe Network Country Reports, 2003)

In **Albania** the central government through the National Housing Agency (NHA) has built almost 10,372 apartments for 'homeless households' registered with local authorities. NHA sells the apartments with a contract for a lump-sum payment, applying 30 percent discount covered by the state budget. The second option is to take a loan; payments are made in installments, which should not exceed 20 percent of the salary. The period is 25 years and the interest is equal to zero.

The National Housing Agency in **Moldova** has centered its activities on the completion of unfinished housing. These projects abandoned in the early 1990s by state enterprises are at various stages of the construction process.¹¹ The Agency receives every year a certain amount of projects, approved by a government decree, and mobilizes funding from prospective buyers for their completion. The prices of housing are usually 20-30 percent lower compared to other new housing due to the initial transfer of land and partially completed construction involved. While this might be a reasonable way to deal with the problem of uncompleted multi-apartment housing by

¹¹ The stock consisted of 296 buildings with more than 20,000 apartments. Various options were applied – auctions of buildings, long-term credits subsidized by the National Bank, VAT exemption, etc. So far the agency has received 50 buildings with 3,000 units to complete.

unleashing frozen assets into the market, the Agency operates like any private developer and does not fulfill a social housing mandate. Similar approaches have been used by the Public Enterprise in Former Yugoslav Republic of Macedonia, which acquired a number of uncompleted buildings from social enterprises in its portfolio.

Cadastre and property registration agencies

Traditionally, in the region of South Eastern Europe, courts were competent for the registration of real property rights, whereas central administrative authorities had to ascertain the physical status of real property, like location, size and value. The Land Cadastre, together with the land books, and/or a system of *tapija* (Turkish based verification of property rights) was introduced during different times in the region. In the former Yugoslavia there was an unsuccessful attempt to transform the existing dual system into a new unified Real Estate Cadastre. Romania, Bulgaria and Moldova are the three countries with a well functioning cadastre and real property registration, which are essential instruments for providing the state and the economy with reliable data on real estate. In Serbia and Montenegro, BiH, Croatia, Former Yugoslav Republic of Macedonia and Kosovo/UNMIK, the cadastre system has a limited coverage (less than 60 percent of the territory) and court enforcement of property rights is required (ECE, 2005; Zülstdorf *et al*, 2004). The situation of the property registration system is a significant constraint for the functioning of housing and mortgage markets and prevents the introduction of market-based property taxation. Reliable data on land and real estate guarantee fair taxation and provide the basis for land administration, land use planning and economic development essential for the desired integration of South East Europe into the EU.

2.1.2 Local governments

The reform process in the region has emphasised decentralisation, deregulation and local autonomy. In the new fiscal reality local authorities are seen as 'crisis managers' charged with a lot of responsibilities related to the provision of infrastructure and services, but without the corresponding resources to address those problems. Thus, the central government has shifted the conflicts in housing and urban development to the local level.

Reforms on local self-government adopted in the early 1990s introduced municipalities as the basic territorial unit for local self-government. Typically municipalities will have a directly elected Assembly (Council), and a Mayor elected at large. In most countries local government is organized at one level with the exception of capital cities and some large urban centers which have a two tier municipal structure. Serbia for example has 161 municipalities¹², Moldova – 65, Albania – 303 municipalities (including 65 in urban areas), Romania – 42 counties (including Bucharest) with 3000 municipalities and Bulgaria – 265. The degree of local government fragmentation, particularly in some countries, has raised serious questions related to institutional capacity and the lack of economies of scale in the management of public utility enterprises (ECE, 1997; 2001).

The functions of local governments include making decisions concerning development programs, urban planning and management, protection of the environment, as well as the budgeting, maintenance and development of communal activities. They plan and regulate the use of building

¹² There are 161 municipalities, excluding Kosovo/Metohija ranging in size from 235,000 to 3,000. The City of Belgrade includes 16 municipalities (ECE, 2005).

land and adopt development plans and zoning plans. Municipal enterprises also provide infrastructure and services related to water, sewer, waste management and public transport. Housing is typically a responsibility which is shared between the central and local governments with the central level focusing primarily on legal issues and the provision of housing subsidies. Local governments are the new social landlords with major responsibilities of housing the poor and disadvantaged.

Overall decentralization has been much slower in Serbia¹³ and Former Yugoslav Republic of Macedonia due to potential ethnic conflicts and political reluctance to vest many responsibilities with the public administration. BiH has the most decentralized structure with a great degree of autonomy at the entity level – F BiH, Republic of Srpska and District of Brcko. Despite these differences in the extent of decentralization, most local governments are highly dependent on central government transfers and have limited possibility to raise funds through local taxes and fees.¹⁴ A major source of local government funding in the EU – property taxes – is very limited in South East Europe. The issue of funding is particularly critical with the scale of demands exceeding current resources. Reliance on donor funded projects, particularly in Serbia, Montenegro, Kosovo/UNMIK, BiH, makes the need for sustainable local funding more important. The delivery of many services, such as apartment maintenance, is carried out by enterprises that are working for, but not directly controlled by, municipalities.

Public utility and maintenance companies

As a result of decentralization, municipal governments were given the control and ownership of public service companies. The experience proved that strengthening municipal governance and the management of local public utilities is one of the key factors for the housing management reform. The old state-owned management structures have collapsed and the efforts to introduce new fiscal discipline and new forms of corporate governance have been limited. First, the sector is inefficient due to its limited managerial independence as far as service policies, operations and pricing is concerned. Second, prices charged for services historically have been low relative to the cost of supply. Efforts to adjust prices in line with inflation and costs have been made on an *ad hoc* basis with limited effect. Third, the funding gap in working and investment capital have led to postponing replacement, deferring maintenance, reducing services, and finally options for concessions and contracting out (Council of Europe Development Bank, 2004)

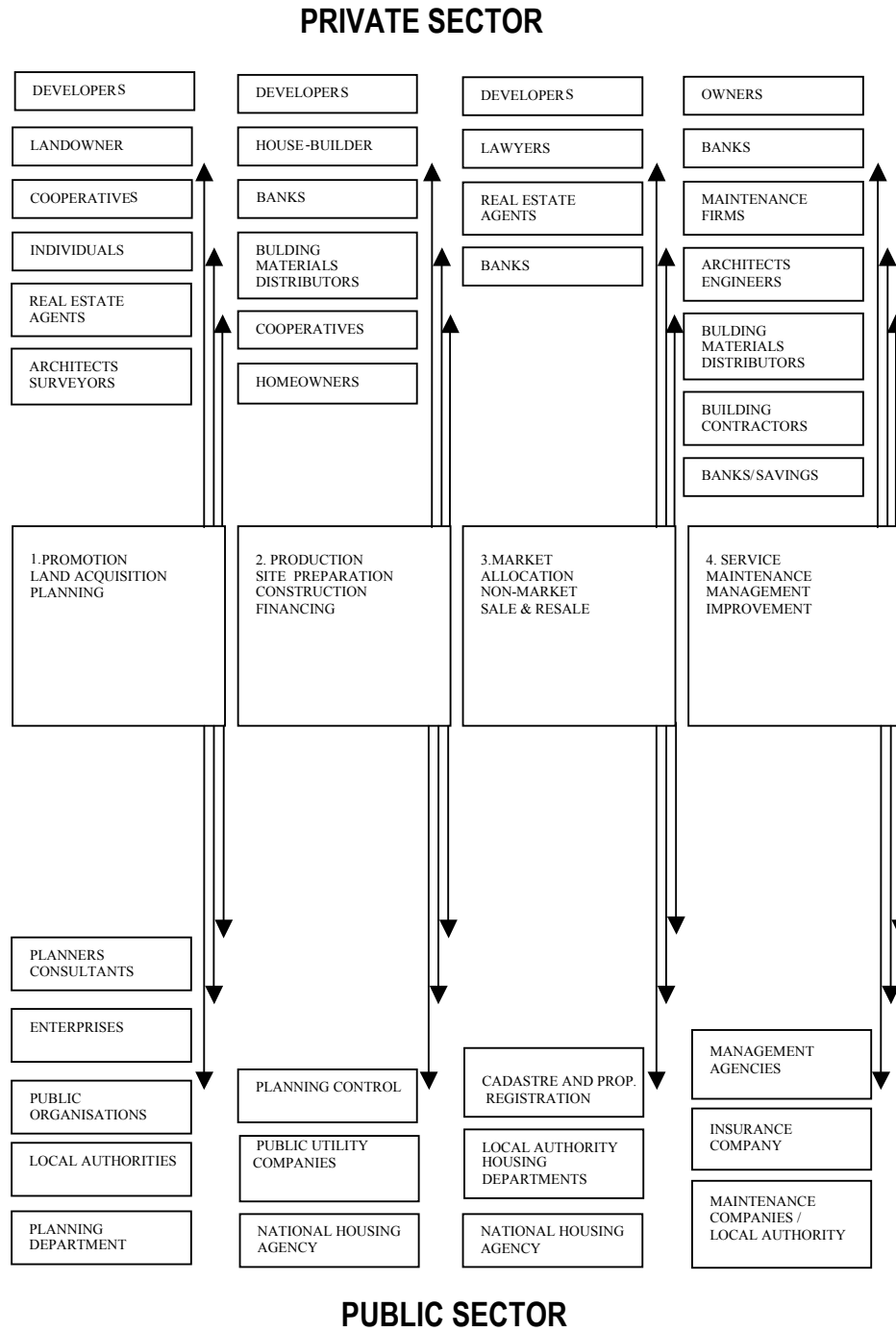
2.2 Private Institutions in the Provision of Housing

Many institutions are involved in the production, allocation and consumption of housing. The emerging housing markets in South East Europe are at different stages in their development and have unique characteristics. The lack of well-established regulatory institutions at the central and local level, as well as the weakness of financial institutions, contributes to the inefficiency and immaturity of these markets.

¹³ For example, local governments do not own urban land in Serbia. In Former Yugoslav Republic of Macedonia urban planning control is exercised by the Ministry of Transport and Construction, while in Albania there is a Construction Inspectorate.

¹⁴ Albania's government is centralized with financial resources and powers concentrated at the national level. Only six percent of the national budget finds its way to local governments (ECE, 2002).

Figure II-6 The housing provision system: major institutions



The most significant ones in the process are: the developers (private institutions or individuals); the landowners; the financial institutions; the building industry (mostly private); the local housing and planning authorities and the consumers. These new roles and responsibilities are associated with the transformation of the housing sector along market principles.¹⁵ The housing provision chain model is used to identify the institutions in the development process. As shown in Figure II-6, the housing provision process is divided into four stages: promotion/investment, production, allocation, and occupancy/service. Major public and private sector institutions involved at each stage of the process are grouped in two separate categories representing public and private interests. The effect of the reform is the growing importance of private sector activities associated with the operation of the market.

2.2.1 Building and maintenance housing industry

The nature of the building industry and the diversity of promotion/production are vital to understanding the varying nature of output between countries. State construction enterprises in South East Europe have disappeared in the early 1990s and the 'municipal developer or social enterprise housing' has ceased to exist. Meanwhile the private building industry has established a considerable market presence. Most of the firms are small, with less than 50 employees, currently holding more than 70 percent of the total construction industry assets (UNECE, 2004). Specifically in Serbia, Former Yugoslav Republic of Macedonia and Croatia, privatisation of the construction sector has contributed to the dramatic reorganisation of the housing industry. Before the transition the housing industry represented a dual system: i) big state owned construction companies typically building multi-apartment housing, and ii) self help sector, where households promoted the construction using the help of relatives and friends and/or contracting state enterprises. The speculative housebuilders have emerged very quickly building mostly for the elite market (Tsenkova, 2000).

The radical changes in housing markets have established a new role for private landowners. Though some of the land is still provided by public agencies (mostly through auction of leasehold or freehold rights), landowners, due to a shortage of urban land with a clear title and various local planning restrictions, are in a position to charge a 'private tax' on development.¹⁶ In areas with land shortages, this ranges from 30 to 50 percent of the house price. Considerable private sector activity in the market-based housing system is focused on maintenance and renewal. A growing number of small construction firms are competing for repair and improvement contracts with the municipal maintenance firms, even in public sector housing. Important changes have also occurred in the roles of local and central institutions associated with housing policy.

2.2.2 Housing finance institutions

¹⁵ The enterprises used to play a decisive role in the pre-transitional period in former Yugoslavia, where the Solidarity Housing Fund was a significant source of the housing finance. The role of the state enterprises as housing developers for their employees ceased to exist in most of the countries, including Serbia since 2004.

¹⁶ Private landowners in most cases own a small lot with older, often substandard housing. Urban renewal in socialist cities was often delayed, so some neighbourhoods in prime locations experienced considerable decline. Such situations alternatively have generated opportunities for private redevelopment of those areas. Restitution of land and housing has increased to some extent the supply of urban land.

Recent studies indicate that the banking system across the region has recovered (Bulter *et al*, 2004; Falcetti *et al*, 2003; Merrill *et al.*, 2003). Although privatization occurred more slowly than planned, much of the controlling interest in the commercial banks of Bulgaria, Croatia and Romania was sold to strategic investors. By comparison, state ownership of capital in the region has been reduced dramatically to less than 15 percent on average. Not only is the banking system dominated by private and in a number of cases foreign ownership, it has experienced large scale restructuring and consolidation. In most of the other countries in the region, credit activity in general, and household lending in particular, has increased substantially during the past two years. Reportedly, despite current low level by EU standards, the mortgage markets in Former Yugoslav Republic of Macedonia, Bulgaria, Romania and BiH are expanding at a rate of 20-40 percent annually. Banks have started to offer much more competitive financial terms—particularly longer maturities and lower interest rates—and apply less restrictive underwriting criteria (Bothwell and Merrill, 2005). The mortgage market in the region is dominated by commercial banks. Recent overview of the mortgage market in a number of countries suggests that mortgage lending is offered by a small number of institutions, often the largest commercial lenders with some degree of foreign ownership.

2.3 Non-government organizations and housing market intermediaries

NGOs in the countries of South East Europe are at an early stage of development and require support to act as effective intermediaries between the public sector and civil society. They are generally limited in capacity and reliant on international donors for funding. Representative bodies of owners or tenants at the national or local level are few, though there has been some attempt to involve NGOs in the development of national housing policies. There are no institutions dealing with housing research, surveys, data collection and policy evaluation.

2.3.1 Associations of homeowners (HOAs)

The new institutions in the urban housing system are HOAs or condominiums. Studies indicate that despite the effort to establish an adequate legal framework for the operation of these new entities, the privatisation has resulted in quasi-ownership with inefficient way of managing housing assets (Council of Europe Housing Network Country Reports, 2003). In most countries less than 20 percent of the multifamily housing has HOAs acting as legal entities. Lack of funding and experience to deal with the complicated tasks of asset management and financial planning has aggravated the housing conditions across the region. In some cases municipal maintenance companies still manage privatized housing under contractual obligations with new owners at nationally controlled prices. The scale of multi-apartment developments also creates difficulties in management and co-ordination of financial contributions. In addition, the level of housing related services (water, energy services, district heating, garbage collection and waste management) has declined because of subsidy cuts, rapidly escalating costs and massive arrears with respect to utility costs. As a result of these processes not only the public services have deteriorated, but the normal maintenance of the housing stock has also accumulated a huge backlog.

2.3.2 Housing market intermediaries

A housing market and land administration can function only through close cooperation of the public sector (policies, legal framework, institutions, such as the cadastre and rights registration) with the private sector participants, such as the mortgage based financing system, the professions of

notaries, surveyors and real estate agents. All of these elements are not well developed in the countries in the region and in some cases do not exist (Serbia, Montenegro, BiH). The introduction of professions such as notaries, real estate appraisers and housing managers would improve the operation of the housing market. Similarly, the profession of real estate agents has to be regulated with regard to qualifications, licensing, monitoring of activities, fee structures and the creation of a self-regulating organization. Romania and Bulgaria have professional organizations for property appraisers, Construction Chambers, Unions of Architects and Licensed Engineers. Realtors in Sofia, Bucharest, Dubrovnik and Zagreb typically have sophisticated databases of properties and sales prices, and web sites listing properties on the market (Merrill *et al.*, 2003; 2004). In Chisinau Laura is the largest real estate agency providing similar services. While there is no formal multiple listing, some of the largest realtors share information on a voluntary basis. As the market matures and both mortgage and management contracts become more sophisticated, the need to regulate the work of housing market intermediaries--real estate agents, housing managers, property appraisers and maintenance firms according to international standards will become much more pronounced.

In summary, the most important constraints for the efficient operation of housing institutions in the region are:

- Lack of adequate institutional capacity of public institutions
- Lack of effective institutional cooperation -- bureaucratic structures, corruption, red tape
- Lack of well established professional intermediaries
- Ineffective operation of Condominiums
- Unsustainable operation of public utility companies.

5 REFORMS OF THE LEGAL FRAMEWORK FOR HOUSING

Further development in the legal framework is the cornerstone of the second phase in housing reforms. Some countries have been more successful than others in designing and implementing adequate legislation to ensure a more efficient market-based system of housing provision. The comparative analysis will focus on the development of housing related legislation in several areas:

- Property rights and registration
- Housing loans and mortgages
- Privatization of public housing
- Management of housing
- Planning and construction
- Property taxes.

Table II-1 Matrix of priority areas for reforms in housing legislation

Country	Property rights and registration*	Housing loans and mortgages	Privatization of public housing	Management of housing	Planning and construction	Property taxes
Albania	X*		X	X**	X**	
Bulgaria	X		X		X	X
BiH	X*		X	X**	X**	X
Croatia	X*	X	X	X		X
Former Yugoslav Republic Macedonia	X*		X	X	X	X
Moldova	X		X	X**	X	X
Romania	X	X	X	X	X	X
Serbia	X*		X		X**	X
Montenegro	X*	X	X			X
Kosovo/UNMIK			X			X

Notes: X* - problematic property registration system; X** - inefficient implementation of the legal framework

The matrix in Table II-1 summarizes the main areas for reforms in the housing legislation, which have received attention in recent years. This stylized assessment indicates overwhelming emphasis on access to homeownership through privatization with legislative action to ensure private property rights in housing and other real estate. Although some progress is made in developing legal frameworks for cadastre and property rights registration, in a number of countries the system is ineffective, incomplete and often court-based. Some countries (Romania, Croatia and more recently Montenegro) have introduced mortgage legislation. With respect to housing management, progress is uneven and despite the introduction of housing acts and/or special condominium legislation, a handful of countries have an adequate legal basis. In fact, even if the legislation exists (Albania and Moldova), the enforcement is inadequate. Efforts to reform the legal framework for planning have been limited and particularly inadequate in Serbia, Montenegro, Albania and Former Yugoslav Republic of Macedonia. While property tax legislation exists in the region, there is no systematic effort to introduce market-based property tax assessment.

3.1 Property rights legislation

In most countries in South East Europe private property rights to land and housing are secured in the Constitution (e.g. Albania, Bulgaria, Croatia, Moldova, Former Yugoslav Republic of Macedonia, and Romania). This has been an essential component of the transition to market-based systems in the early 1990s.

Title and ownership rights in real property in most countries today are considered to be adequately complete and clear for operation of the housing and mortgage market. In Bulgaria these rights are stipulated in the *Property Law*, in Croatia—in the basic *Law on Possession and Other Real Property Rights* of 1996, while in Albania property rights are governed by the *Civil Code*. In BiH work is underway on comprehensive revisions of the *Law on Property*, which governs property ownership as well as mortgage and some pledge relationships. New amendments to the *Law on Enforcement Procedure* were adopted in 2003 introducing more streamlined execution process, including sale of real estate, and clearer procedures for real estate auctions. In Serbia property ownership is regulated primarily by the *Law on the Basic Elements of Property Rights*, initially adopted in 1980, but substantially amended in 1996. Other laws that regulate different aspects of the acquisition, ownership, possession and use of immovable property are the *Housing Law of 1992* (as amended in 2001), and *Law on Transactions in Real Estate*. Moldova and Romania have introduced *Housing Acts* in the mid-1990s defining new housing relations, rights and obligations of the owners and maintenance of apartment buildings. Former Yugoslav Republic of Macedonia had a similar experience with a new *Law on Housing* since 1998, which in addition to the *Law on Ownership and Other Real Rights* (2001) regulates property acquisition, inheritance and disposal.

Property Registration. All countries have developed to a different degree the legal framework for property registration and validation of property rights in real estate and housing. In Bulgaria the *Property Registration Law* requires titles and property transactions to be recorded in the legal registry maintained by the district courts.¹⁷ In Romania the process is regulated in the *Real Estate Registration and Cadastre Law* of 1996. Romania has a strong system for registration of real estate and mortgages. In fact, in both countries ownership records were reasonably well kept up during socialist years and the registration of privatized apartments has been handled in an efficient manner. The cadastre in Romania is under the jurisdiction of the Ministry of Public Administration, while the land book or legal registry is administered by the Ministry of Justice and the courts (Merrill *et al.*, 2003).

Urban land and other immovable real estate in Albania are registered in the Hipoteka Offices, which since 1995 have been transformed into Immovable Property Registries created by the *Law on Registration of Immovable Property*. The first registration of property was free of charge, however, the completeness of the database today is questionable (ECE, 2002).¹⁸ In Moldova the *Law on Real Estate Cadastre* (1998) stipulates mandatory registration of all real estate property and established a unified system bringing technical, legal and ownership characteristics together

¹⁷ Registration of title or mortgages in Bulgaria is handled by notaries and is reported to be very speedy—as little as 24 hours from submission of documentation to completion of registration (Merrill *et al.*, 2003). The legal registry and cadastre are not yet unified.

¹⁸ Recent changes in the legislation allow initial registration of ownership over land with buildings under construction, which is then finalized upon completion.

(including mortgage and lien). The National Agency for Geodesy and Cadastre maintains the system, which has over 90 percent coverage of all real estate on the territory of Moldova.

In Croatia the process is regulated in the *Land Registration Act* of 1996, the *Regulations on Land Registration Procedures of 1997*, and Book of Ordinances of the Land Register of 2000. Dwellings bought or acquired on any basis until 1997 used to be entered into the Book of Deposited Contracts. Since 1997, all real estate is registered into the land books. Efforts are made to simplify and improve the process of consolidation of integrated Land and Real Estate Register. While Croatia has an adequate legal framework for registration, in practice many properties are not in the registration system.¹⁹

Box II-2 Problematic property registration in Croatia and Bosnia and Herzegovina

Property registration in Croatia often fails to include enterprise owned properties built during the socialist years and more recent transactions with privatized apartments. It is estimated that in Zagreb only about 50 percent of the properties are registered. This problem is exacerbated by the manner in which registration of privatized apartments is regulated—all apartments in a building must be registered at the same time. In Zagreb, 90 percent of the population lives in privatized apartments. Banks will not consider making mortgages on properties that are not registered. There are also reports that the registration records are not accurate; in other words, even in cases where properties are registered, the records cannot be trusted. To help address the problem of unregistered properties, the courts maintain Books of Deposited Contracts. This can be used for apartments in buildings that have not yet been registered but where the owner has a valid sales contract. While this procedure does not afford the same legal protection as the land books or legal registers, it is often used for purposes buying and selling real estate.

Similarly in Bosnia and Herzegovina registration of privatized apartments was handled outside the usual Land Book system to allow for speedy and reliable registration. A Book of Deposited Contracts was set up in a separate office in each jurisdiction with a Land Book registry, and entry in this system is legally tantamount to Land Book registration.

Source: Butler et al., 2004; Merrill et al., 2003

The *Law on Land Registry* in Bosnia and Herzegovina since 2002 aims at introducing a unified system for property registration. At present, separate Geodetic Administrations in FBiH and RS are responsible for the cadastre, while the land registry maintained by the courts under the supervision of the Ministry of Justice is responsible for establishing the legal rights to the object. While it is difficult to get reliable quantitative estimates of the state of the title registration system today, there are some indications that upward of 40 percent of the country lack a functional titling system. This is consistent with the conditions found in Croatia, Serbia and Former Yugoslav Republic of Macedonia by ongoing World Bank cadastre projects (Butler et al., 2004; Zülsdorf et al., 2004). It is believed that in about 20 percent of the towns in BiH no court land book exists due largely to war caused damage and destruction.

In Serbia the lack of adequate registration in the new unified Real Estate Cadastre is a major constraint for the development of efficient housing and mortgage markets. *The Law on Cadastre*

¹⁹ While the property and ownership rights are adequately set out in the Law, there are problems with establishing ownership rights. There are conflicting claims to ownership in areas affected by population displacements during the war, and some properties are affected by restitution claims under the Law on Compensation for Properties taken during Yugoslav Communist Rule (Merrill et al., 2003).

and the State Registration of Real Estate has been challenging to implement due to the lack of property records from socialist times and incomplete cadastre covering only 55 percent of the territory. In Former Yugoslav Republic of Macedonia the issues are similar. Recent amendments to the *Law on Survey, Cadastre and the Real Estate Rights Registry* in 1991 introduced the framework for integrated cadastre and real estate property system—Public Paper—which contains information on the property ownership, rights, lean and technical characteristics of the property.

3.2 Legislation on housing loans and mortgages

The Croatian *Law on Ownership*, Article 304, defines types of mortgages and specifies that real property may be used as security for a loan. In Bulgaria this is specified in the *Property Law*, while in Romania the *Mortgage Law* (1999) and the *Banking Law* allow licensed banks and other financial institutions to make loans secured by real property. The *Mortgage Law* has provisions for loans to be secured by future (to-be constructed) property. These provisions were included to allow the National Housing Agency to develop and finance the sale of housing (Merrill *et al.*, 2003). In Albania the regulation of borrowing using real estate as collateral is in the Civil Code, further supplemented by the *Law on Collateral*. The separate ownership of buildings and land is not allowed and mortgages can be used only if the title on both is consolidated. In Moldova a new *Mortgage Law* is currently under review; in BiH a *Law on Pledge of Movable Property* is under consideration.

Reportedly in Serbia mortgaging is inadequately regulated by just a handful of articles in the *Law on the Basic Elements of Property Rights*. The right of pledge is established by legal transaction, court ruling and law. By contrast, in Montenegro the *Mortgage Law* was adopted in 2004

Croatia has several laws related to the financing of housing—*Law on Building Society Savings and State Subsidies for Building Societies*, *Law on the Fund for Long-term Financing of Housing Construction with State Subvention* and *Law on State Subsidised Housing Construction*.

Foreclosure. In Bulgaria a court judgment is required, and the “executive judge” supervises each step, including appraisal of the property, public sale or auction, and eviction. Execution is conducted under the *Civil Procedure Code* and the *Law on Obligations and Contracts Law*. Romanian law generally provides a good framework for foreclosure with details specifying court involvement, action process and priority claims (Bothwell and Merrill, 2005). In Croatia the legal framework for foreclosure is reportedly inadequate. The typical procedure ranges from 1 to 3 years, depending on the jurisdiction. Banks tend to use guarantors in addition to collateral to counteract this uncertainty.²⁰ In Serbia the lack of detail in the property legislation, in conjunction with the provisions of the *Law on Enforcement Procedure* of 2000, has not allowed for the development of foreclosure as a means for a creditor to retrieve a loan. Mortgage lenders cannot initiate foreclosure; the execution of the procedure requires a favourable court ruling in a declaratory process (ECE, 2005).

3.3 Legislation on housing privatization

²⁰ In addition to mortgage loans secured by a registered lien on the borrower’s property, Croatian law provides for a second type of mortgage arrangement—the fiduciary ownership model. Under fiduciary ownership, the lender holds the borrower’s ownership documents (the deed or title) to the property until the loan is paid (Registra *et al.*, 2005b).

Albania and Moldova were the first countries in the region to introduce privatization in 1993. In Serbia the *Housing Law* effectively allowed for the privatisation of flats owned by the state: the occupier was awarded the right to buy the title to his flat at a fraction of the flat's market value. While a percentage of the proceeds were expected to contribute towards the provision of social housing for vulnerable groups, very little was built. The price was estimated based on different criteria such as average gross monthly income in the Republic, age of the dwelling and its quality, and flat size. A reduction was made on the basis of years of working experience of tenants. Prices were discounted by 50 percent for disabled veterans from WWII.

In Montenegro the *Law on Floor Property* of 1995, amended in 1998, provides the basis for privatization. In contrast to the situation in Serbia, however, the legislation terminates the possibility for the tenant to purchase the apartment within two years of the law coming into force. In a further contrast to the situation in Serbia the owners of buildings constructed on private land have been awarded common indivisible ownership of both the building and the land. Montenegro adopted a new *Law on Floor Property* in 2004 defining maintenance responsibilities of apartment owners in a more explicit manner.

In Former Yugoslav Republic of Macedonia the *Law of the Sale of Socially-Owned Housing* (1990) and *Regulations on Establishment of Sale Prices for Socially-Owned Housing* (1992) defined the conditions for privatization. The price was established on the basis of construction price, expenses for preparation of construction land, location and amortization. Payment was executed in full or in installments. In the case of payment in full, a discount of ten percent could be approved. In the case of payment in installments, the annual installment could not be lower than the prescribed rate of amortization increased by 50 percent, and the pay period was up to 40 years. *The Housing Law* (1998) further regulates housing relations in the rental and privately owned housing. The right to buy, if not exercised by December 2004, is transformed into a rental right, on the basis of a rental agreement concluded with an entity authorized by the Government of Former Yugoslav Republic of Macedonia.

In BiH the *Law on Privatization of Apartments with Existing Tenure Rights* was passed in November 1997. In BiH (Republic of Srpska) this was supplemented by the *Law on the Housing Fund* (2001).

Box II-3 Implementation of the Law on Privatization of Apartments in BiH

The legislation did not specify what entity will actually implement the law, that is, accept and decide on applications, calculate prices, issue contracts, and register new ownership rights. Since the municipality owns the land upon which the housing is built, and a proportionate share of the land is included in each privatization contract, the implication is that the municipality will have to be involved in each sale. Even though the average purchase price of 7,000 - 10,000 DM was reportedly high for most families, many used vouchers to pay. The law allowed payments over a 25 year term at 1 percent interest. The price for a privatized apartment was substantially higher than in other countries in the region, which on average ranged from several hundred dollars (Romania, Bulgaria and Serbia) to a symbolic price in Albania and Moldova.²¹ It is generally believed that the voucher an average family receives is sufficient to acquire ownership of their apartment. A voucher expires after two years, and an individual must live in his or her apartment for two years to acquire a voucher.

Source: Rabenhorst, 2000

²¹ The hyperinflation which followed in Serbia, Bulgaria and Croatia reduced the outstanding debt to a negligible amount.

3.4 **Legal framework for apartment ownership and management.**

Most countries have introduced condominium laws or changes to existing legislation to define ownership rights and responsibilities to individual and common parts of apartment buildings, including land under the building. However the formation of institutional entities such associations of homeowners or condominiums have been very slow and in most countries the market for maintenance and management is dominated by municipal companies. With respect to multifamily housing, the legislation fails to impose in reality an obligation on residents to take responsibility for buildings, which in practice leads to further deterioration of the stock. These issues are discussed in more detail in *part IV – Privatization and Housing Management: A Troubled Relationship*.

3.5 **Legislation on construction and planning**

Most countries in the region have adopted, or revised substantially, planning legislation to define private and public responsibilities in the development process. A new generation of master plans has been developed, at least in the capital cities and major urban centres, recognizing new real estate market realities. The differences in the legal framework on planning and construction are significant between Bulgaria and Romania on one hand and the countries from the former Yugoslavia on the other.²² The legacy of a system which did not recognize private property over urban land, coupled with the lack of adequate property registration of property rights, is a major constraint for the implementation of an effective planning framework in these countries. The problems that have plagued the construction of new housing, particularly in Serbia, Albania, BiH, and Montenegro, are manifold. The primary problem is access to land and cumbersome planning and building permit process. In addition, massive illegal construction, especially on the periphery of urban settlements, testifies to a failure to develop a coherent and comprehensive urban planning and zoning policy. Failure to establish transparent and consistent procedures for the auctioning of building land and the issuance of the necessary construction permits also contribute to the high volume of illegal construction. Even in Former Yugoslav Republic of Macedonia, where the regulatory framework for the realization of detailed urban plans and construction of buildings (*Law on Spatial and Urban Planning and Law on Construction of Investment Buildings*) is in place, the amount of illegal buildings in Skopje is high.

Undeveloped municipal land still has not been denationalized in Serbia and Montenegro as well as BiH and remains in state ownership. The municipality has the right to allocate the land by several methods (leasehold, auctioning of rights, outright sale) as agent of the state. Both the Federation and RS now have *Laws on Urban Construction Land (2003)* and *Law on Spatial (Urban) Planning (2002)* which establish the principles that: (1) building owners are considered to also own the land under their building; (2) holders of rights of use to undeveloped lands created prior to 1992 have a temporary right to use the land and a preferential right for construction; and (3) other undeveloped urban lands are to be allocated by the municipalities primarily through competitive procedures under short term construction leases which will convert to ownership upon completion of construction (Butler *et al.*, 2004).

²² Former Yugoslav Republic of Macedonia only recently adopted its *National Spatial Plan (2004)*. However, new legislation on construction and planning with secondary regulations was adopted in 1996 followed by the *Law on Building Land* in 2001.

In Serbia the *Law on Planning and Construction* (2003) provides for construction on public building land through lease by the local government in accordance with the Urban Plan. Fees for the use of developed construction land are paid by the owner of the building, whilst payment for the use of public land that has not been used for construction is made by the user. The legislation also regulates the legalisation procedure for buildings constructed without a permit, however, the procedures is on a case by case basis.

*Effectively the lack of private ownership over construction land results in inability to mortgage land for construction, which is a constraint for individuals and cooperatives alike.*²³ Tenure is limited to a long-term use right, which can be registered in the land books, but most banks will not lend for construction on this basis.

3.6 Taxes and transaction fees

Property taxes on housing in most countries are not *ad valorem*, but are assessed on the basis of normative amounts multiplied by the number of square meters of the taxed property. Reportedly in most countries in the region, the normative tax is established on the basis of tax zones, distinguished by quality of municipal services and other real property valuation factors. Overall the amount on property taxes in the region accounts for less than 3 percent of the household budget. BiH has tax exemptions for primary residences. Moldova is introducing property taxes based on mass evaluation in 2005. In Romania property taxes are calculated as 0.5 percent of the market value on the first property owned by the taxpayer, 0.75 percent of the second property and 1.0 percent of the third property. Property taxes are not assessed on newly built properties for the first 10 years (Merrill *et al.*, 2003).

In Serbia, BiH and Former Yugoslav Republic of Macedonia only improvements, not land, are taxed, although there is a small amount of land lease rent that is paid. In Montenegro and Moldova the right to use state and/or municipal land for housing construction is acquired through competition/ auction. According to the *Law on Property Taxes* (1993), amended in 2003, property taxes in the Former Yugoslav Republic of Macedonia are 0,10 percent of the assessed market value for the first property and 0.20 percent for second and third.

In BiH the 1995 *Decree Law on Real Property Transfer*, effective in both entities, sets a maximum property transfer tax of 15 percent of the value of property being transferred. Property transfer tax rates vary considerably among jurisdictions (from 15% in Tuzla Canton to 8% in Sarajevo Canton 8% and 3% in Republika Srpska). By comparison, the property transfer tax in Croatia is 5 percent and in Romania it ranges between 2 and 4 percent of the sales price (Rabenhorst, 2000). In the Former Yugoslav Republic of Macedonia property transfer tax is set at 3 percent.

²³ In Serbia the *law On Cooperatives*, 1996, deal with the operation of housing / construction co-operatives as both investors and contractors. A construction / housing co-operative can be registered as a legal entity: on this basis it can obtain a lease for land, construct flats, and sell them. Essentially, the co-operative provides a savings scheme for construction where credits are given to members for the purchase of apartments. The law does not, however, adequately regulate the relationship between members of the co-operatives. After contributing money towards the construction of new housing the member of a co-operative has a contract for the purchase of a flat but no legal title (ECE, 2005).

4 FISCAL AND FINANCIAL INSTRUMENTS TO SUPPORT ACCESS TO AFFORDABLE HOUSING

4.1 Housing policy areas and the choice of instruments

Despite the generic subsidy cutbacks during the transition, the housing sector in South East Europe still maintains a diverse set of measures to ensure access to affordable housing as well to provide assistance to groups with special housing needs. The mix is complicated to evaluate since there is no systematic assessment of different government programs (central or local) in the housing sector in terms of their efficiency (costs), targeting and effectiveness (outreach). The matrix in Table II-2 summarizes the main housing policy areas in the region which have received fiscal and financial support. This stylized assessment indicates overwhelming emphasis on access to homeownership (this excludes ubiquitous privatization policies introduced in the early years of the transition in the region). Some countries (Romania and more recently Bulgaria) have introduced programs to support the renovation and energy retrofitting of multifamily housing, both private and public. Support for the rental sector is limited to a handful of countries in the region, while housing assistance for groups with special needs is a mix of programs for households affected by the restitutions process and/or limited income support to assist with housing costs. War reconstruction efforts and assistance to refugees in BiH, Croatia, and to some extent Serbia and Montenegro, have crowded out the ability of governments to address other housing policy areas.

Table II-2: Matrix of housing policy areas in South East Europe

Country	Access to homeownership	Renovation of multi-apartment housing	Public/social rental housing	Private rental housing	Housing assistance for groups with special needs	War-reconstruction Assistance to refugees
Albania			X		X	
Bulgaria	X	X	X		X	
BiH						X
Croatia	X			X		X
Former Yugoslav Republic of Macedonia	X		X			X
Moldova	X				X	
Romania	X	X	X		X	
Serbia	X					X
Montenegro	X					X
Kosovo/UNMIK			X			X

Note: 'X' – programs and other support available.

The next matrix in Table II-3 identifies the choice of policy instruments which range from direct provision of housing to demand-based housing assistance and tax incentives for housing investment. Although there has been an attempt to reduce the commitment of governments through state provision of housing, an overwhelming majority of the countries still maintain these types of programs. In Albania the target group is limited to households affected by restitution or identified as 'homeless' (although new law on social housing adopted in 2004 shifts the emphasis in this direction), in Former Yugoslav Republic of Macedonia and Moldova public housing agencies are using state subsidies (land and frozen assets in unfinished housing construction) to complete the

projects with additional funding from potential homeowners. In Romania the national housing agency is targeting young households. Serbia and Montenegro until recently maintained a socialist type of housing provision through the Solidarity Fund. Similarly, a large number of countries have grants and subsidies for homeowners with a mix of programs assisting war reconstruction (BiH, Croatia, Former Yugoslav Republic of Macedonia and Kosovo/UNMIK) and subsidies to purchase housing for households in selected categories (Albania—the ‘homeless’ households and Bulgaria—the ‘old savers’).

Table II-3: Matrix of fiscal housing policy instruments in South East Europe

Country	Direct provision of housing for homeowners	Direct provision of public/social rental housing	Grants/subsidies to homeowners	Mortgage interest subsidy	Rent control in denationalized housing	Assistance to low income households	Tax incentives
Albania	X		X		X	X	
Bulgaria		X	X		X	X	
BiH			X				
Croatia	X		X	X	X		X
Former Yugoslav Republic of Macedonia	X	X		X			
Moldova	X					X	
Romania	X	X	X			X	X
Serbia	X						
Montenegro	X						
Kosovo/UNMIK			X				

Note: 'X' policy instrument introduced in legislation and/or policy framework and implemented.

As attempts were made to replace the instrument of direct public lending to the housing sector, in two countries steps were taken to fiscally support mortgage lending and contract savings for housing (Croatia and Romania). The subsidy mix also includes some rent control in denationalized housing (no targeting) and use of means-tested income support (Bulgaria and Moldova). What follows is a description of different programs in the region with a subsidy mix ordered by its intensity from high to low. War-related housing reconstruction programs and assistance to refugees are discussed separately.

4.2 Direct public provision of homeownership housing

Serbia has had the most extensive program in this area funded under the Solidarity Housing Fund. Enterprises, institutions and state bodies were legally required to set aside funds of 1.3 per cent of gross salaries to provide housing for employees, who do not possess own housing unit. A part of fund was aimed at meeting housing needs of war invalids and people with disabilities. The *Law on Income Tax in 2001* replaced the Solidarity Housing Fund. This tax was set between of 0.3-1 per cent of salary, which was ultimately abolished in 2004. The legislation neither defined conditions for disposal of the resources (criteria, target groups, conditions for granting and returning the resources, etc.), nor enacted other by-laws or monitoring system. The Solidarity Housing Fund resulted in approximately 0.1 flat per 1000 inhabitants functioning mainly as the delivery mechanism of highly subsidized owner-occupied housing for middle-income households (HABITAT, 2001).

Serbia also launched a program for construction of 100,000 flats for young couples, army and police in 1999 carried out by The Republic Construction Directorate. Municipalities were expected to provide free land; in 2000 the first 1,000 flats were allocated, without defined quotas for the specific target groups. The program was terminated after the change of government in 2000.

In Albania, direct public provision till the end of 2004 aimed at the provision of housing for

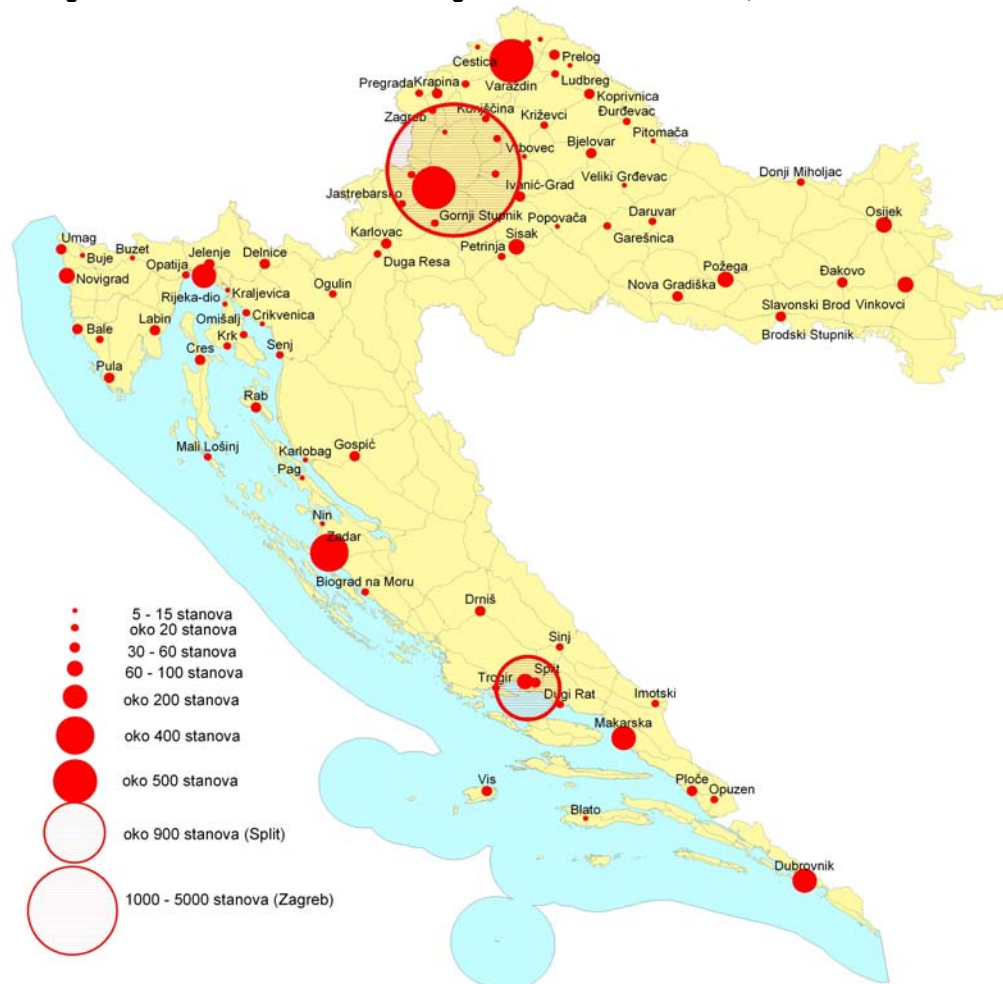


'homeless' households – those who did not benefit from the privatization and live in restituted housing. So far the National Housing Agency has completed close to 11,000 flats which were sold to the 'homeless' families registered with municipalities. The sales arrangements are twofold: i) lump sum payment with a 30 percent discount; ii) long-term payments in instalments at 0 percent interest rate and 4 percent down payment. Monthly payments are not expected to exceed 20 percent of the household income. In addition, free housing is built by the Agency for ex-political prisoners and war invalids (ECE, 2002). Overall this fairly generous program, despite its limited outreach, has been costly to the state budget. Poor payment discipline has reduced the cash flow even further. The sustainability of the model, given the lack of state funds and high level of poverty among beneficiaries, is highly questionable.

Multi-apartment housing in Bucharest completed by the National Housing Agency

In addition, a number of National Housing Agencies (Moldova, Albania, and Romania) and Public Enterprises (Former Yugoslav Republic of Macedonia) have carried out programs to complete unfinished public housing projects frozen since the early 1990s. While the targeting is questionable, state finds and various subsidies (land, infrastructure, value of previously completed works) are used to deliver homeownership units to the market. Since 1999 in the Former Yugoslav Republic of Macedonia, the program provides new housing constructed on state land by the Public Enterprise for young households, people without housing property and children over 18 leaving state care institutions. Prices are 15-20 percent lower than market prices, buyers are expected to pay half of the price with the remaining amount paid in 180 month installments (15 years) with subsidized 8,4% annual interest rate.

In Romania the National Housing Agency completes unfinished multi-apartment buildings started before 1990. Units are allocated to eligible households who receive a subsidy up to 30 percent of the total dwelling value. Target groups are young couples under 35, disabled people, veterans from the December 1989 revolution and their families, qualified staff in education and health sectors in rural settlements (Council of Europe Network Country Reports, 2004).

Figure II-6 Subsidized Housing Construction in Croatia, 2001-2003

In Croatia the *Law on State Subsidised Housing Construction* sets the framework for public provision of homeownership housing. The program is implemented and financed by the State Agency-APN under the control of the Ministry of Environmental Protection, Physical Planning and Construction. The law regulates the sale price of a flat (max 910 EUR/m²) as well as the contribution of central government (175 EUR/m²) and local government with land and infrastructure (max 210 EUR/m²). Buyers are required to provide a down payment of 15 percent; the rest is paid by instalments. The total repayment period is up to 31 years with an interest rate from 4 to 4.5 percent per year. The program targets first time buyers who can qualify for a mortgage and meet the financial requirements of mortgage lenders. So far the program has resulted in the provision of 1768 dwellings with another 2080 under construction. The program operates across the country, although as Figure II-6 shows a large concentration exists in Zagreb and Split (Ministry of Environmental Protection, Physical Planning and Construction, 2005).

4.3 Demand-based assistance to homeowners – grants, tax deductions/exemptions

Policy instruments in that category are quite diverse. Romania and Croatia stand out with a wide range of programs from grants to leverage investment in housing renovation to tax incentives for the purchase of housing. Some programs promoting homeownership operate in Bulgaria, with limited results. Interest rate support on housing credits in Romania and Croatia resulted from a combination of high nominal interest rates and rising political impatience over the weak development of the mortgage markets. Loan instruments that might have been suitable for the high inflation environment that characterized the region were largely missing, so both countries have introduced contract saving schemes, which support small-scale borrowing mostly for home renovation purposes.

In Romania retrofitting of multi-apartment buildings was initiated in 2003 with pilot projects for 36 public buildings in Bucharest, Roman, Suceava, Bacău, Brăila, Galați.²⁴ The pilot program was expanded to include public housing in 13 counties with the objective to launch a multi-year investment program for privately owned apartment buildings in 2005. The funding of rehabilitation works is as follows: 25 percent subsidy from the state budget, 15 percent from the homeowners' associations fund for repair, 60 percent credit with a 5 percent annual interest rate to be reimbursed in 10 years. Tax exemption is granted on the construction license and on property taxes for the whole credit reimbursement period. Similar programs are planned in Bulgaria (see Box II-4).

Box II-4 *New housing programs in Bulgaria*

The Adoption of a *National Housing Strategy* in Bulgaria in 2004 was followed by two new programs approved in 2005: National Program for Renovation of Housing Buildings in the Republic of Bulgaria and National Program for Improving the Living Conditions of Disadvantaged Ethnic Minorities in Urban Areas. The first one aims at reconstruction of panel housing with the following program targets: i) First subprogram (2005-2015) renovation of 105,000 buildings in panel housing complexes located in the largest Bulgarian cities – Sofia, Plovdiv, Varna and Burgas. The financial resources necessary for its implementation are about 670 million lev; ii) Second subprogram (2008-2020) includes 579,676 buildings across Bulgarian cities, half of them panel construction. The financial resources necessary for its implementation are about 3.5 billion lev. The State will assist the owners of dwellings included in the Program by means of direct subsidy of about 830 million lev. The operational aspects of the program are still to be defined.

The second National Program for Improving the Living Conditions of Disadvantaged Ethnic Minorities in Urban Areas (2005-2015) aims at creating conditions for providing housing access for low income families with children at risks. It targets specifically Roma families with the provision of 47,457 dwellings. The Program will be funded by the government, local authorities of self-government, non-bank financial institutions, The European Union and international NGO's ²⁵ (Country Reports Council of Europe Housing Network, 2004).

Assistance with purchase of dwellings is offered in Bulgaria to target groups identified in *The Old Savers Act*. Beneficiaries get compensations (in cash or in the form of 'compensation bonds')

²⁴ In Romania 72% of all urban housing is in multi-apartment buildings; 58% (2,4 million apartments) built between 1950-1985 need energy efficiency improvements.

²⁵ These efforts are supplemented by National Action Plan to the Decade of Roma Inclusion 2005-2015 /adopted in 2004, which envisions construction of 284 dwellings and neighbourhood improvements in Plovdiv.

after buying or initiating the construction of which is estimated at 0.03 BGL (0.04 as of 2004) per interest rate point accumulated under the communist system of savings for housing with the State Savings Bank. The average points per deposit are 100,000 so the average compensation is close to 3,000 BGL (Dimitrov, 2004). Reportedly this amount covers 5-9 percent of the average price for a dwelling in the resale market in most urban centers.²⁶

Tax incentives have provided a significant boost to new housing construction in Romania



Croatia has introduced an elaborate system of tax deductions for housing purposes: i) investment for purchase or renovation of housing can be deducted from income tax (from 15% to 45%) but is capped at 1,600 EUR; ii) interest on mortgage payments is tax deductible as well up to 50 percent of monthly rent. In Romania VAT is set at a zero rate on the construction, upgrading and rehabilitation of dwellings. Serbia did not have VAT till 2005 on housing construction, which effectively is a universal subsidy of 18 percent.

4.4 Provision of public/social rental housing

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

In Romania the *Programme for Social Housing Construction* is implemented in partnership between the local governments and Ministry of Transport Communication and Tourism, which provides financial support in addition to local land and infrastructure finance. The target group is vulnerable

²⁶ Savers are divided into three categories depending on saving time—more than 20 years, 15-20 years, 10-15 years, etc. So far compensation has been offered to 72,334 savers for the purchase of housing or construction of new unit (Dimitrov, 2004).

social categories of households, irrespective of their age. The dwellings are not for sale and rent is subsidized. In addition, the Romanian National Housing Agency (RNHA) in convention with local governments implements a *Programme for Rental Housing for Young People*. Local governments provide land and infrastructure and allocate the dwellings. RNHA acts as project developer, promoter, construction supervisor and financial provider. The target group is people under 35 (could be young people from social protection institutions); the dwellings remain public rental property administered by the local councils. An example of such project is a housing development in BRÂNCUȘI DISTRICT, BUCHAREST. The project has a total land area of 67.3 ha with 4,695 units: 186 in private property with mortgage credit and 4,509 rental housing for young people. This mixed community also has a nursery, kindergarten, school, health center, police headquarters, sports fields and commercial areas (Council of Europe Housing Network Country Reports, 2004).



Social housing in Brancusi District, Bucharest

A new pilot project initiated in Albania aims to provide the first 200 social housing units in the city of Durres, the second largest in the country. The complex is situated on public municipal land. The first building with 30 apartments is financed mostly from the state budget with a 10 percent contribution from the municipality. The costs will be shared by the central and local government (50/50) for the other buildings. The social housing will be targeted to low income families that do not possess a house, or live under minimum standards. The annual rent is set at 4 percent of the cost of construction; in cases where rent exceeds 25 percent of the household income, a housing allowance will be provided for up to 50 percent of the rent.

In Former Yugoslav Republic of Macedonia new social housing is under construction since 2000 with EUR15 million loan from the Council of Europe Development Bank matched by the same investment from the state budget. The objective is to build 856 flats across the country. The flats are intended to be given under rent for five years for low income households (average annual income per member of a

family below 65% of the average at the national level) without housing property, young couples with children and children without parents accommodated in institutions until the age of 18. The project will be completed in 2006. Units can be sold to tenants after the five-year period.

4.4 Housing assistance to low income households in the rental and owner occupied sector

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

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

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

4.5 Concluding comments

Despite the generic subsidy cutbacks during the transition, the housing sector in South East Europe still maintains a diverse set of measures to ensure access to affordable housing as well to provide assistance to groups with special housing needs. The mix is complicated to evaluate since there is no systematic assessment of different government programs (central or local) in the housing sector in terms of their efficiency (costs), targeting and effectiveness (outreach). *Most of the support aims at homeowners providing a combination of public provision and demand-based assistance (grants, interest subsidies and tax incentives)*. Romania and Croatia have the most aggressive housing programs, while in Bulgaria and Former Yugoslav Republic of Macedonia housing has disappeared from the policy agenda in the last fifteen years. Albania and Moldova so far have struggled with major economic difficulties, which have reduced fiscal support to a limited set of policy measures with inefficient targeting. Governments also had other priorities—education, health, infrastructure. Support for the rental sector is limited to a handful of countries in the region, while the housing assistance is limited to groups with special needs. There is limited information on the number of units delivered under each program, its cost and/or the cost of different tax deductions and grants. It is imperative to start monitoring for housing policy purposes with transparent indication of the implications for the state budget. This will assist in ensuring the sustainability of fiscal policies.

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

III HOUSING SYSTEM PERFORMANCE: REGIONAL CHALLENGES

This section applies the conceptual framework for the study to evaluate current housing conditions and recent trends in South East Europe with an emphasis on the outcomes of housing reforms and the implications for housing markets. It examines progress in housing using data from the last censuses on housing availability, quality, distribution and access to technical infrastructure. Housing choices are evaluated with respect to changes in tenure structure and access to adequate housing. The analysis emphasizes issues pertaining to housing affordability in different housing markets reflected in costs in different types of tenure. Last but not least, investment in housing, and in particular new housing construction, is reviewed in the light of recent housing reforms across the region.

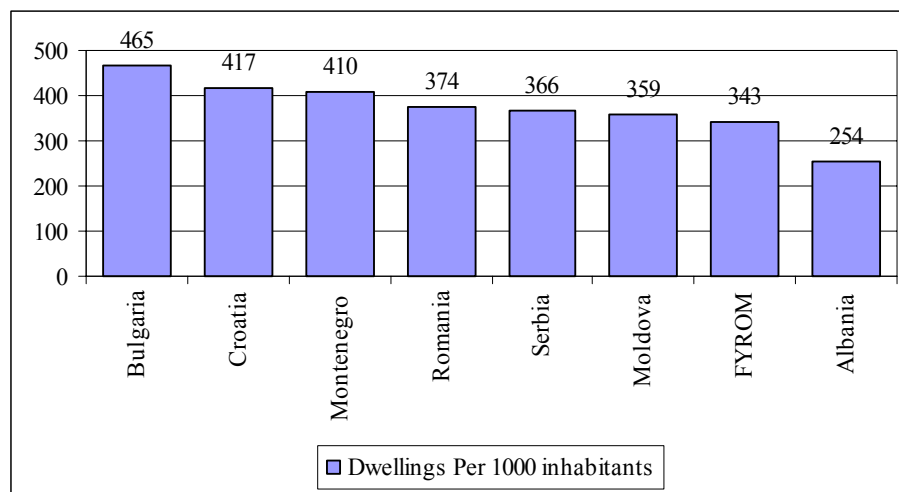
1 ASSESSMENT OF HOUSING DISTRIBUTION IN THE REGION

The total housing stock in the region can be estimated at 20.5 million dwellings, according to data collected from national statistic institutes and the Council of Europe Development Bank.

Table III-1: South East Europe: population and total housing stock

Country	Population in million (January 2003)	Housing stock (Last available year)
Albania	3.5	0.78 (2001)
Bulgaria	7.8	3.68 (2001)
Bosnia and Herzegovina	4 (2002)	0.95 (2000)
Croatia	4.42	1.85 (2000)
Former Yugoslav Republic of Macedonia	2.52	0.69 (2002)
Moldova	3.62	1.29 (2001)
Romania	21.7	8.10 (2002)
Serbia and Montenegro	10.6	3.18 (2001)
Total	57.8	20.52

The figures on housing stock need to be analyzed with some reservation given the inconsistencies in the information from the census in individual countries as well as differences in methodology. Romania is the country with the largest housing stock in South Eastern Europe which matches its population size, while the former Yugoslav Republic of Macedonia is the country with the smallest population and housing stock.

Figure III-2: Dwellings per 1000 inhabitants, 2002

Source: Tsenkova, 2005: Council of Europe Development Bank Regional Housing Survey

Figure III-1 illustrates the availability of housing in selected countries. The number of dwellings per 1000 people varies from 254/1000 in Albania to 465/1000 in Bulgaria.²⁷ Housing provision in Albania and Former Yugoslav Republic of Macedonia is much lower, although in the case of Albania there has been some dramatic improvement compared to the ratio of 219/1000 at the end of the communist era (Hegedüs *et al.*, 1996). Overall, housing availability in Southeastern Europe is lower than the average of 490 units observed for other EU countries. However, the GDP per capita in the region is one third of the GDP average in the EU, which affects the amount of investment available for improvement in housing conditions.

Table III-2: Selected housing indicators in South East Europe

Country	year	Dwellings per 1000 inhabitants (urban areas)	Average useful floor area of dwelling national level (m ²)	Average useful floor area of dwelling urban areas(m ²)	Average number of rooms per dwelling national level	Average number of rooms per dwelling urban areas
Albania	2001	278	67.0	69.0	2.2	2.1
Bulgaria	2001	420	63.3	63.9	2.8	2.6
Former Yugoslav Republic of Macedonia	2002	-	71.2	-	3	-
Moldova	2003	353	59.1	53.8	2.7	2.3
Romania	2002	373	37.4	37.4	2.6	2.4
Serbia	2002	367	66.9	63.1	2.7	2.4

Source: Tsenkova, 2005: Council of Europe Development Bank Regional Housing Survey

²⁷ The indicators on housing availability need to be treated with caution. A number of countries include vacation homes, substandard and temporary dwellings in these estimates.

It is difficult to find both reliable data and good measures for the quantitative aspects of the housing situation in the region. Table III-2 provides a series of indices on the availability of dwellings and their size at the national/urban level. Contrary to expectations, urban areas seem to have very similar indicators, suggesting minor inequalities in housing consumption. Dwellings tend to be small with 2.7 rooms on average; Romania stands out with 37 sq m of average useful floor space per person. In Moldova and Serbia, the differences in urban housing consumption are somewhat more pronounced with dwellings 10-15 percent smaller than the national average.

Households on average tend to be larger in Albania and Kosovo, while Bulgaria has the smallest household size of 2.7. As presented in Table III-3 over 40 percent of the households in the region have more than 3 members, which highlights another dimension of the housing problem.²⁸ The structure of the housing stock – in terms of size and number of rooms is inadequate compared to the size and structure of households. However, all countries with the exception of Kosovo have a surplus of housing compared to the number of households. Consequently, there are significant differences in the magnitude of the general housing surplus ranging from 786,000 units in Romania to 58,000 in Albania. In terms of housing surplus as share of the total stock, most countries are in the range of 12-14 percent with Albania (7%) and Montenegro (24%) being the two extreme situations.

Table III-3: Selected household and housing indicators in South East Europe

Country	Year	Households (thous.)	Average household size	Household structure					Housing units (thousands)	Housing surplus
				1-person	2-person	3-person	4-person	5-person and >5		
Albania	2001	726.9	4.2	4.7	12.4	15.5	27.4	40	785.51	58.61
Bulgaria	2001	2921.9	2.7	22.7	28.4	21.6	18.0	9.3	3686	764.1
BiH	1991	1207.0	3.6	10.8	16.7	20.0	27.8	24.7	-	-
Croatia	1991	1544.2	3.1	17.8...	22.5...	20.0	23.7...	16.0...	1851.6	307.4
Kosovo/UNMIK	2003	370	5.6	1.9	5.2	7.3	12.9	72.7*	300	-70.0
Moldova	2002	982	...	...	...	...	...	...	1291.1	309.1
Former Yugoslav Republic of Macedonia	2002	564.2	3.6	9.6	19.6	18.4	28.4	24.0	697.5	133.3
Serbia	2002	2521.2	2.9	20	24.8	19	21.3	14.9	2956.5	435.3
Montenegro	2002	192	3.2	...	...	...	...	...	253	61.1
Romania	2002	7320.2	2.92	18.9	26.7	22.8	17.8	13.8	8107.1	786.9

Source: Tsenkova, 2005: Council of Europe Development Bank Regional Housing Survey

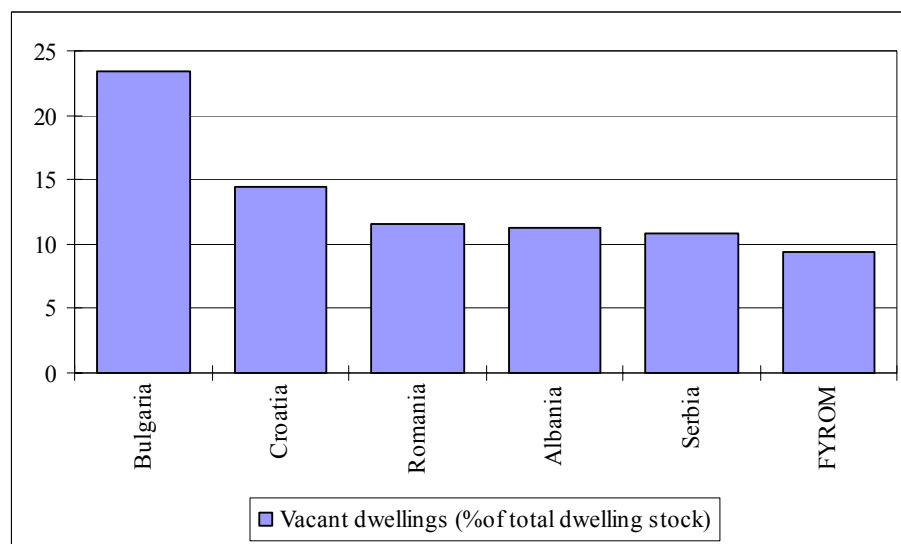
Local housing market mismatches pose an additional, often neglected quantitative problem. Despite the overall surplus of housing, the census data indicate that the capital cities in the region experience housing shortages and overcrowding. Dwellings on average tend to be small and often accommodate more than one household or the ratio of persons per room is higher than 1. For example, in Serbia 18 percent of the people (about 284,000) are overcrowded. There are many cases with more than 3 occupants per room (about 590,000 occupants in 120,000 dwellings). In

²⁸ In Kosovo/UNMIK 40% of the households have 7 or more than 7 members (Statistical Office of Kosovo, 2005)

addition, over 54,000 people live in 18,000 substandard dwellings. Evidence from the census data in Bulgaria and Romania indicate similar problems.

In addition, part of the spatial mismatch is related to migration to places with more dynamic labour markets in pursuit of employment and education opportunities. In the countries affected by war, massive displacement of the population has resulted in higher vacancies in areas where people are reluctant to return. Last but not least, second homes, which are not used for permanent habitation, are very important element of the housing markets in Croatia, Montenegro and Bulgaria. Data on vacant units in several countries in the region demonstrates this inefficient use of the housing stock (Figure III-2). Vacancy rates are as high as 24 percent in Bulgaria and between 10-14 percent in most of the other countries. This might be due to substandardness of housing and/or lack of demand in rural areas. In some countries—Albania, Bulgaria and Moldova—high vacancy rates are reportedly due to immigration. Absentee homeowners often do not rent out these units, even in urban areas where demand is high.

Figure III-2: Vacancy rates in South East Europe



Source: Tsenkova, 2005: Council of Europe Development Bank Regional Housing Survey

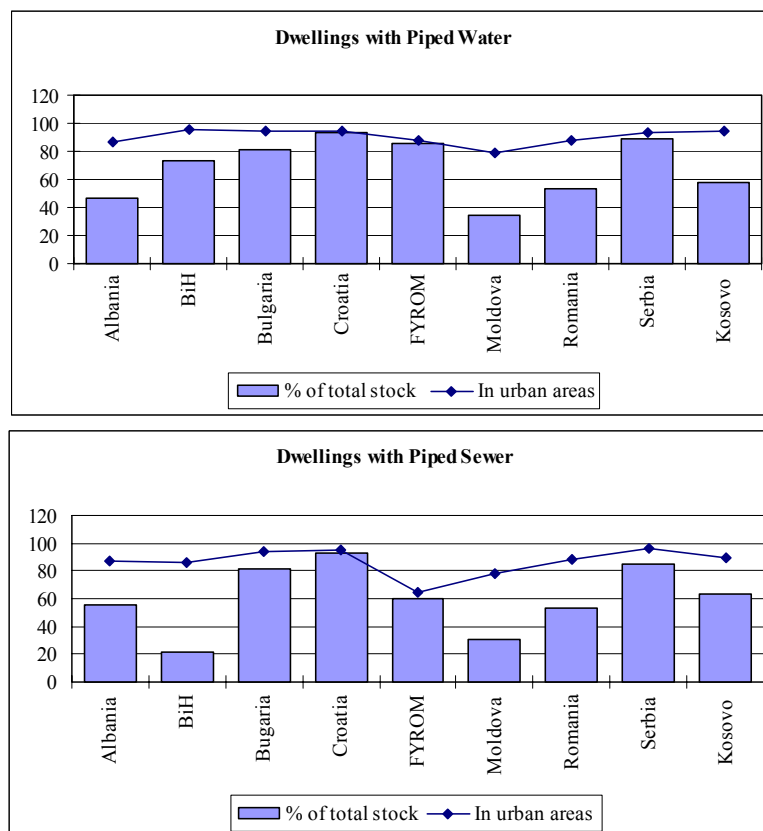
2 IMPROVEMENT IN HOUSING QUALITY: REGIONAL CHALLENGES

In South East Europe quality problems of the existing housing stock have attracted significant public attention. Even allowing for definitional changes over time, the available data indicate overall housing improvement in the region since 1990s. However, cumulative shortages of financing for infrastructure development in rural areas during communism, coupled with scarcity of public resources in the last decade, have resulted in widening differences in access to basic infrastructure between urban and rural areas. Despite the growing rates of housing construction in rural communities, mostly through self-help, public and private investment has been unable to close the gap.

2.1 Access to technical infrastructure

A large share of the housing stock in the region lacks basic infrastructure and services. As the data in Figure III-3 indicate *water supply systems are generally better developed than the piped sewer system*. Albania and Romania stand out with only around 60 percent of households living in dwellings with piped water supply. Water provision is also a good example for the urban bias which developed under communism. There is a major difference in quality standards in rural and urban areas.

Figure III-3: Dwellings serviced by water and sewer, 2002



Source: Tsenkova, 2005: *Council of Europe Development Bank Regional Housing Survey*

Note: Data for BiH from *The Living Standards Measurement Survey*, Agency for Statistics of Bosnia and Herzegovina, 2004; for Kosovo from *The Household Budget Survey*, Statistics Kosovo, 2004

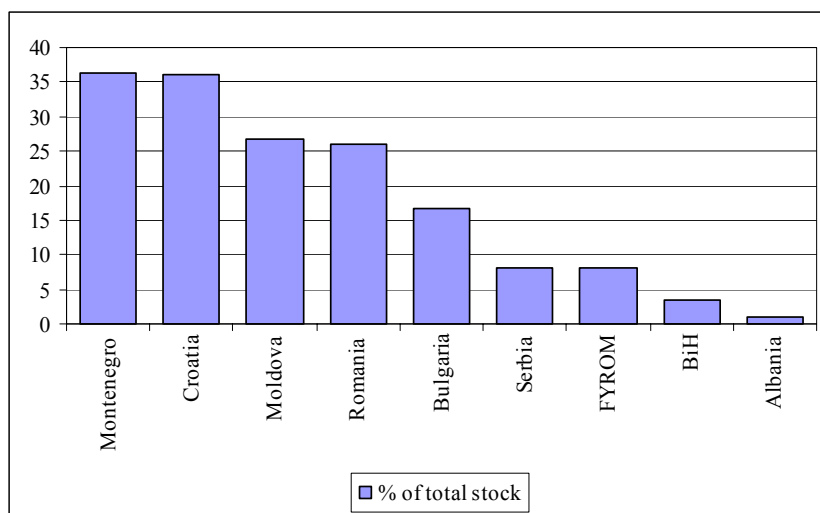
While the majority of the urban housing (80-98 percent) has piped water, two thirds of the dwellings in rural Moldova, Albania and Romania lack modern water and sewerage facilities. It should be noted that these percentages vary widely within local and regional housing markets.²⁹ The available data on *sewerage infrastructure* suffer from definition problems as sometimes "second-best" methods, such as septic tanks, are included. The comparative data suggest a backlog in the provision of sewer for close to 80-70 percent of the dwellings in Bosnia & Herzegovina and

²⁹ Noting high statistical indicators of the population with improved water source in Serbia, ECE report explicitly states that half of households experience water interruptions; 50% of tap water in does not meet the standards for safe drinking, and in most Montenegrin cities this proportion is some 15-20% (ECE, 2005)

Moldova. In Albania and Romania 60 percent of the dwellings lack these essential services. Furthermore, the scarcity of resources for much-needed upgrades in the technical infrastructure has led to deterioration of existing networks and frequent disruption of services. *Indeed, the question of housing quality in South East Europe is directly related to improvement of access to safe drinking water and sanitation.*

Another indicator which reflects the level of services in the housing stock is associated with *modern heating systems*. District heating is widely spread in Montenegro and Croatia where the share of dwellings serviced by the system amounts to 35 percent of the housing stock. Moldova and Romania show an average of 25 percent, while in most of the other countries the share is much lower. Overall access to centralized heating systems across the region is available in the capital cities and some of largest urban centers.

Figure III-4: Dwellings serviced by central heating, 2002

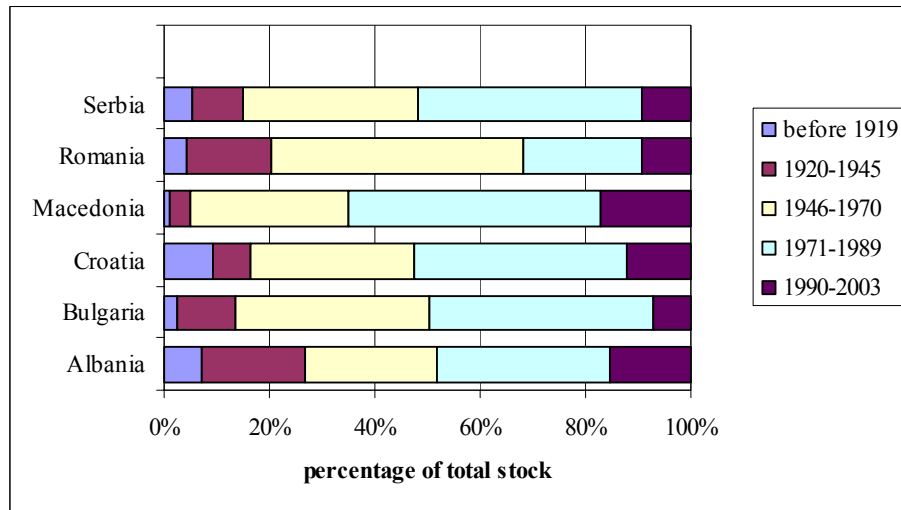


Source: Tsenkova, 2005: *Council of Europe Development Bank Regional Housing Survey*

Note: Data for BiH from Agency for Statistics of Bosnia and Herzegovina, 2004.

2.2 Deteriorating quality of existing housing

Closely related to housing quality are the age characteristics of the housing stock. The available data indicate that most of the housing across the region was built after the WWII. The oldest part of the stock, built before 1919, constitutes only about 5 percent of the total against the EU average of about 18 percent. Investment in housing provision during communism has resulted in waves of new construction, particularly in urban areas since the 1970s, to respond to urban growth. A principle feature of the housing system in the region was that new housing was built by state enterprises for rent or sale, while rural areas experienced growth in the production of single family self-built housing. The output from 1971 to 1989 was particularly significant in all countries with the exception of Romania, where the share of new construction between 1946 and 1970 played a more prominent role (Figure III-5). Housing production in post-transition years added close to 18 percent to the housing stock in Albania and Former Yugoslav Republic of Macedonia, while in the other countries this share was lower than 10 percent.

Figure III-5: Age characteristics of the housing stock

Source: Tsenkova, 2005: Council of Europe Development Bank Regional Housing Survey

Another regional housing feature, along with the premature ageing of the housing stock, is the large existence of multi-family panel apartment blocks. While there is a lack of data for all of the countries, some censuses carried out recently reveal that multi-family panel apartment blocks account for nearly half of the urban housing stock in Bulgaria, Romania and Moldova. This building technique was the privileged construction concept, which allowed for the rapid expansion of urban areas during the communist era creating entire city districts across the region.

Some estimates, based on aggregated data from 2000, suggest that the share of dwellings located in multi-family housing blocks makes up 30 percent of all dwellings in the region (5-6 million dwellings (Hegedüs and Teller, 2003). Up to 90 percent of multi-apartment blocks were built after the 1960s out of prefabricated components. In Bulgaria, there are some 18,900 panel apartment blocks containing 707,096 dwellings--21 percent of current Bulgarian housing stock--inhabited by more than 1.7 million people (Dimitrov, 2005).³⁰ In Romania, 72 percent of urban housing stock consists of dwellings in multi apartment blocks. The Romanian authorities have estimated that more than 800,000 dwellings (9.8% of current Romanian stock) located in panel blocks are in need of repairs.

³⁰ Close to 54 percent of the panel housing is concentrated in the five largest cities in Bulgaria with Sofia having the leading share of 28.5 percent.



Housing estate on the outskirts of Sarajevo

The implications of the predominance of multi-family blocks are multidimensional:

- *Social:* From a social policy point of view, urban areas with a high concentration of apartment blocks are increasingly seen as being stigmatic of poverty and social exclusion. Currently the buildings contain a social mix with low to middle income households sharing the common areas, however, the market value of this type of real estate has declined due to difficulties in management and maintenance.
- *Technical:* The life expectancy of multi-family panel blocks is approximately 50 years and a significant portion of this stock no longer complies with technical standards. In addition, the region is exposed to earthquake risk, so the physical condition of panel housing raises concerns over its capacity to withstand natural disasters. It is, however, encouraging that the authorities in some countries are aware of this situation: the Romanian Government and local authorities have launched a special program to reinforce the structure of the most badly-affected buildings in Bucharest.
- *Financial:* The preliminary estimates for the investment needs for rehabilitation and restoration purposes point to figures which will have long term financial implications for the countries. In Bulgaria, it has been estimated that 10 percent of panel dwellings are in need of urgent repairs and that the average cost of restoring a panel dwelling is EUR 1917 with the total cost of rehabilitation of this part of the stock estimated at EUR 151 million. In Romania, some EUR 940 million is needed for thermal rehabilitation of around 800,000 dwellings according to the government program for 2002-2007.



War damage in the centre of Sarajevo

War damaged housing. There was significant deterioration in the housing stock in war affected countries. In Bosnia and Herzegovina these challenges are particularly significant. Some 445,000 homes in the country have been partially or totally destroyed, which is more than a 37 percent of pre-war housing stock. Even after the war another 14,000 housing units have been destroyed despite the signing of a peace agreement. According to the Ministry of Refugees and Human Rights the level of reconstruction in housing is some 37 percent, with close to 164,000 housing units reconstructed till 2004.³¹

About 42 percent of the housing units that need reconstruction have different scale of damage: almost half (44%) have a devastation level over 75 percent, 16 percent have a devastation level between 45 and 65 percent,

some 13 percent – devastation level of 25-40 percent, while another 10 percent have a devastation level lower than 20 percent. The cost of reconstruction in accordance with minimum housing standards is estimated at BAM 2.5 billion.

In Kosovo/UNMIK, 30 percent of the housing stock was damaged and in some cases whole villages were totally destroyed. According to the Ministry of Public Construction in Croatia the damaged and demolished housing stock is over 200.000 dwelling units, or close to 13 percent of the total for the country.

2.3 Substandard housing

Substandard housing is defined as housing with at least one of the following problems: housing built for temporary use; housing units not fulfilling the minimal regulatory requirements specified in building codes; housing without basic utility services (indoor toilet and bathroom); housing in structurally unsound buildings with bad physical conditions. There is no systematic data on the share of substandard housing in different countries and its distribution across tenure. Anecdotal

³¹ Current reconstruction underway at the territory of BiH includes some 4,000 housing units, for which some BAM 50 million has been engaged, as per assessments on the basis of average reconstruction costs of one destroyed housing unit.

evidence points out to a growing share of housing in unsafe conditions in rural and urban areas as well as in multi-apartment buildings due to systematic disinvestment and deferral of maintenance in the last decades. The evidence below highlights the dimensions of these problems in the region (see Box III-1).

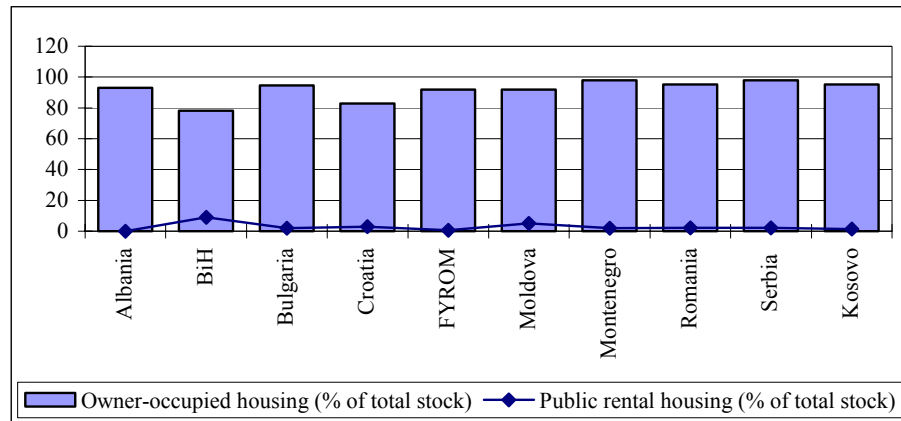
Box III-1 Formation of slums in Serbia and Montenegro

Belgrade has a number of 'unsanitary' settlements in the city -- concentrated areas where people live in 'impoverished habitats'. The Institute of Urbanism recently identified 29 slums and 64 unsafe settlements in the city, some along Sava River others - on land designated for major transport routes. In 2003, the City of Belgrade initiated a program for the construction of 5,000 housing units to address the problems of people living in slums allocating €11,500,000 from its budget (Belgrade Urbanism Institute, 2003).

The Roma in Serbia and Montenegro often live in unsafe and impoverished areas. They build housing by themselves using non-durable materials or employing unused old railway cars, buses etc. The majority of their housing units are, in fact huts, shacks or so-called tent settlements, often hosting refugees. In a number of these settlements connections to water tend to be illegal; there is no waste collection, no sewerage systems and no indoor plumbing. In Serbia around 70 percent of Roma households reportedly live in dwellings with no water connection, over 80 percent with no sewerage and 65 percent in illegally built settlements. In Montenegro, 32 percent of the Roma live in collective centers and 47.6 percent live in barracks while 45 percent lack plumbing and tap water at home (World Bank study on Millennium Goals, 2005).

3 TENURE STRUCTURE AND HOUSING CHOICE

The distribution of the housing stock by tenure category is characterized by a reduced share of public housing stock and a predominance of owner occupied housing (Figure III-6). In most of the countries across the region, owner occupation exceeds 90 percent, which is well above the 60 percent average in the EU. Although some of this housing might actually function as private rental, responding to pressures from migration and labour market adjustment, the tenure structure in South East Europe is quite polarized leaving a small and residual sector of publicly owned social housing (ranging from close to 9 percent in Bulgaria and Bosnia & Herzegovina to less than 1 percent in Albania and Former Yugoslav Republic of Macedonia). Privatization of public housing assets in South East Europe occurred over a short period of time with a substantial impact on the ownership pattern, particularly in the urban areas. This unprecedented transfer of wealth from public to private ownership could be regarded as one of the successful examples of privatization in transition economies. It is not surprising that the privatization of housing has been very popular among the people and enabled households to acquire a stake in the market economy. As pointed out by Tsenkova (2000), the privatization of housing assets in South East Europe affected 31 percent of the stock within 4 years.

Figure III-6 Ownership of housing in South Eastern Europe, 2002

Source: Tsenkova, 2005: *Council of Europe Development Bank Regional Housing Survey*

Note: Data for BiH from *The Living Standards Measurement Survey*, Agency for Statistics of Bosnia and Herzegovina, 2004; for Kosovo/UNMIK from *The Household Budget Survey*, Statistics Kosovo, 2004

According to some estimates, 2.8 million dwellings out of 3.5 million public housing units have been privatized since 1990 (Council of Europe Development Bank, 2004). In Albania, 98 percent of public housing was transferred to sitting tenants within one year by law. In Serbia, the privatization of the so-called “socially owned stock” occurred at 10 percent of market prices. In Moldova, dwellings were privatized while the buildings remained under public ownership until 1997 when provisions were introduced to transfer building ownership to the recently established associations of homeowners. In BiH privatization was initiated as late as 1998; it affected 19 percent of the stock consisting of ‘socially owned apartments, mostly in large urban areas.³² The restitution of property rights to owners of nationalized housing has amplified the impact of privatization on the current tenure distribution. Although the number of housing units subject to restitution claims in the region is limited, this process had created uncertainties over the enforcement of property rights and pressures to ensure alternative accommodation for affected tenants.

There is some variety of public and private forms of housing in South East European countries. On the basis of processes and agencies related to the production, access, financing and consumption of housing, different forms can be identified: public and private rental, private owner-occupied (single family, condominium/cooperative) and other categories related to housing owned by state institutions, subject to restitutions, etc. (Table III-4). The division apparently accommodates a number of differences and conceals significant variations within one category. However, this is a common problem in cross-country comparison, which is difficult to overcome especially in transition countries. With the risk of simplifying a very complicated matter the analysis will focus on the main characteristics and common features of different forms of tenure. The emphasis is on similarities among countries rather than differences.

³² Before the war, there were 250,000 socially owned apartments in BiH. In Sarajevo, apartments account for 56% of the housing stock; in the 7 largest urban areas of BiH, they account for 50%.

Table III-4 Differences in tenure structure in cities and countries

Country	Year	Public rental housing (% of total at national level)	Public rental housing (% of total in urban areas)	Private rental housing (% of total stock) (national level)	Private rental housing (% of total stock in urban areas)	Owner-occupied housing (% of total at national level)	Owner-occupied housing (% of total in urban areas)	Other form of ownership (% of total at national level)	Other form of ownership (% of total in urban areas)
Albania	2001	0	0	4	7.1	93.6	88.7	2.4	4.2
BiH	2001	9.0	13.4	1.3	1.9	78.3	72.2	11.4	12.5
Bulgaria	2001	3.0	4.2	1.9	-	94.6	-	0.5	-
Croatia	2001	2.8	-	10.8	-	83	-	3.4	-
Former Yugoslav Republic of Macedonia	2002	0.6	-	8.9	-	90.4	-	0.1	-
Moldova	2003	5	12.1	-	-	94.7	87.3	0.3	0.6
Romania	2002	2.2	3.4	1.6	2.7	95.1	93.1	1.1	0.8
Serbia	2002	2.1	2.4	2.0	5.0	95.9*	92.6	0	0
Kosovo/UNMIK	2002	1.4	3.4	-	-	95.1	90.1	3.5	6.5

Source: Tsenkova, 2005: Council of Europe Development Bank Regional Housing Survey

Public rental housing is owned by local governments in most of the countries. Its share is higher in urban areas. It is often funded with municipal or state/public enterprise funds and managed by municipal maintenance companies, who collect the rents and handle tenant agreements. Rents are controlled and determined at the local level with some direction from central government on inflation adjustment. Bulgaria and BiH have a share close to 9 percent of the national stock with Moldova having 5 percent on average and a high concentration of public rental housing (12%) in urban areas.

Private rental housing has increased significantly largely as a result of rent control elimination, privatization and restitution of public housing. Its share is particularly significant in Croatia and Former Yugoslav Republic of Macedonia (close to 11 and 9 percent respectively). Rents in the sector are determined by the market. Reportedly rental market pressures are considerably high in the capital cities and large urban centers where this type of housing is often sought by foreign diplomats, businesses and expatriates. Private investors are still reluctant to get involved in new rental housing provision. Rental agreements, security of tenure and eviction procedures are specified in various legal acts. It is considered that the sector is larger, but functions to a large extent as part of the informal economy.³³

³³ In Croatia 49,000 households have a protected rent, another 12,500 rent only a part of a flat, while 50,000 rent informally in the private rental sector (Council of Europe Network Country Reports, 2003).



Panel housing in Chisinau – home to owners and tenants.

Owner-occupied housing is dominant across the region, although its share in urban areas is losing grounds to private rental. *Single-family owner-occupied housing* is dominant in smaller cities and rural areas. Usually referred to as self-help housing, this form of housing provision has a long tradition in South East Europe. A number of new developments in suburban areas of large cities built for the higher end of the market also fall into this category. Luxury gated communities have emerged on the outskirts of Sofia, Belgrade, and Chisinau in response to demand.



New housing in Podgorica in upscale neighbourhood rented to foreign institutions

Condominiums and cooperatives are another option for owner-occupation. Owners have individual rights over the dwelling. Costs are lowered through collective ownership over the land, common elements and shared maintenance. There are significant variations in the quality, structure and type of condominiums. Some are built using traditional construction methods with greater involvement of home owners through “building cooperatives” (Bulgaria, Croatia). Other condominiums have been developed by public construction enterprises in high rise panel structures. Poor initial quality, deferred maintenance and structural defects have become apparent during the aging of the building. The nature of condominium development and ownership, however, poses some problems related to management and coordination of financial contributions for maintenance.

In summary, housing choices in the region today are very limited – households need to become homeowners, or rent in the informal private rental sector. Chances to qualify for public housing are marginal, given its small share and low turnover.



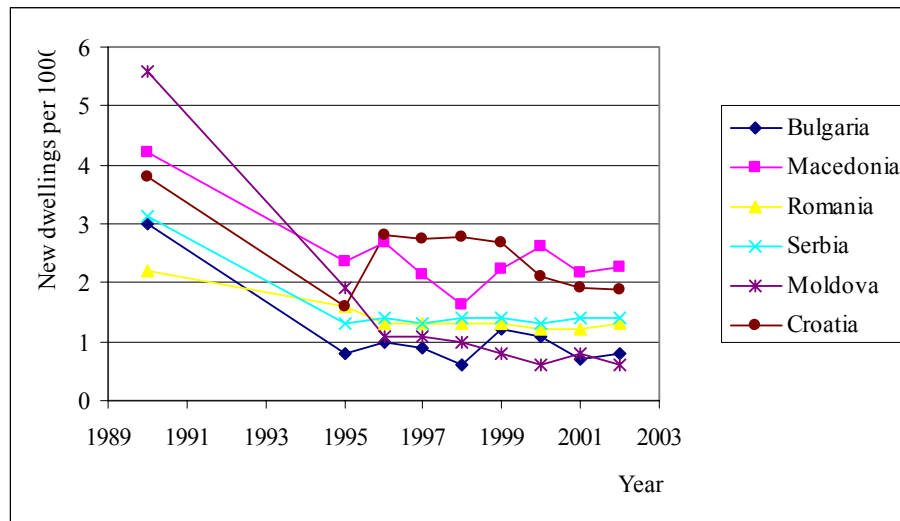
Illegally constructed housing in Belgrade

4 HOUSING INVESTMENT AND NEW HOUSING CONSTRUCTION

Housing investment has been sharply reduced during the first phase of transition by more than 50 percent. From 1990 to 1994 there was an alarming drop both in new construction and the share of housing investment as a percentage of GDP in the region. The share of housing investment in GDP is close to 1 percent; in Serbia this share is close to 2 percent, while in Former Yugoslav Republic of Macedonia it tends to be 3 percent, which is similar to the EU average. It is important to note that these estimates exclude war related reconstruction efforts, mostly financed through external donor assistance.

4.1 Trends in new housing construction

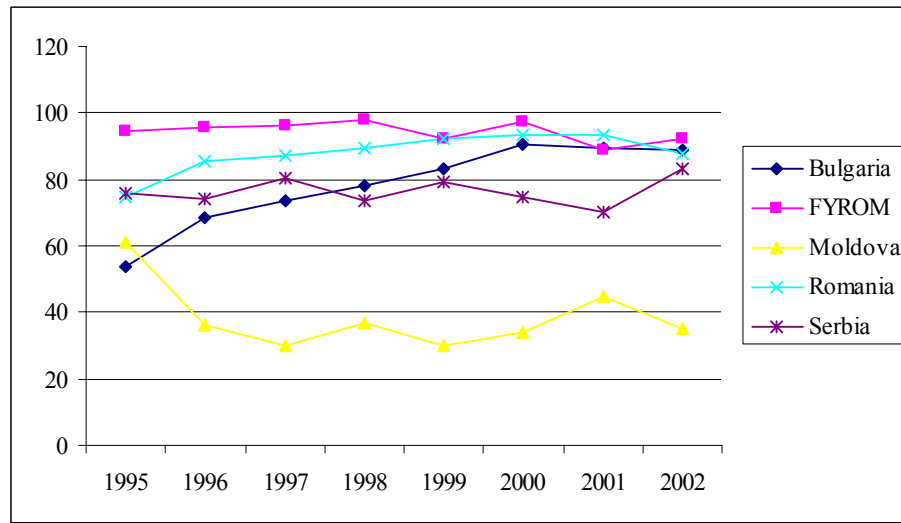
From a *quantitative perspective*, the level of new housing construction has reached historically low levels with rates of new dwellings per 1000 around half of the level in the 1990's. The decline in Bulgaria, Moldova and Serbia was much more pronounced due to the rapid withdrawal of state support for housing and economic difficulties. Despite the general picture of profound recession observed till the mid-1990s, a rather heterogeneous situation has emerged. Rates of housing production are relatively stable across the region with Former Yugoslav Republic of Macedonia and Croatia maintaining a level close to 2 units per 1000 residents (Figure III-7). The other countries have a lower level of housing production; however, it should be acknowledged that these estimates exclude illegal construction which is very significant in Serbia, Montenegro and Kosovo/UNMIK.

Figure III-7 Rates of new construction in South East Europe

Source: Tsenkova, 2005: Council of Europe Development Bank Regional Housing Survey

Most of the new housing (over 80 percent) is produced by private developers with a significant share of single family housing built mostly in the form of self-help (Figure III-8). Moldova is a notable exception with a more significant involvement of public sector agencies in new construction. Although 60 percent of the new housing is developed by the public sector, this tends to be predominantly housing for sale at market prices. Similar strategies are employed in Former Yugoslav Republic of Macedonia and Romania.

Contrary to expectations, private sector activity in housing construction was much less affected by the recession, sharply rising prices, inflation and falling real incomes. In South East Europe the share of privately developed housing has remained relatively stable which shows its strength vis-à-vis its public sector counterpart in adverse economic conditions and elimination of subsidies. Another important feature is related to the shift from new housing construction to renovation and rehabilitation of existing housing. Though production and investment in housing has declined, anecdotal evidence suggests that private investment in improvement of existing housing has increased (most of the lending activity refers to these types of loans), which might be offsetting declines in new construction to a considerable degree. The decline in new construction might be due to underreporting and failure to meet building inspection standards for registration of new dwellings. For example, recent census data indicate that 261,753 dwellings have been built in Bulgaria between 1991 and 2001. Meanwhile construction data reports new housing for the same period to be in the range of 103,000 suggesting that close to 150,000 newly built dwellings are used as permanent residence without being registered.

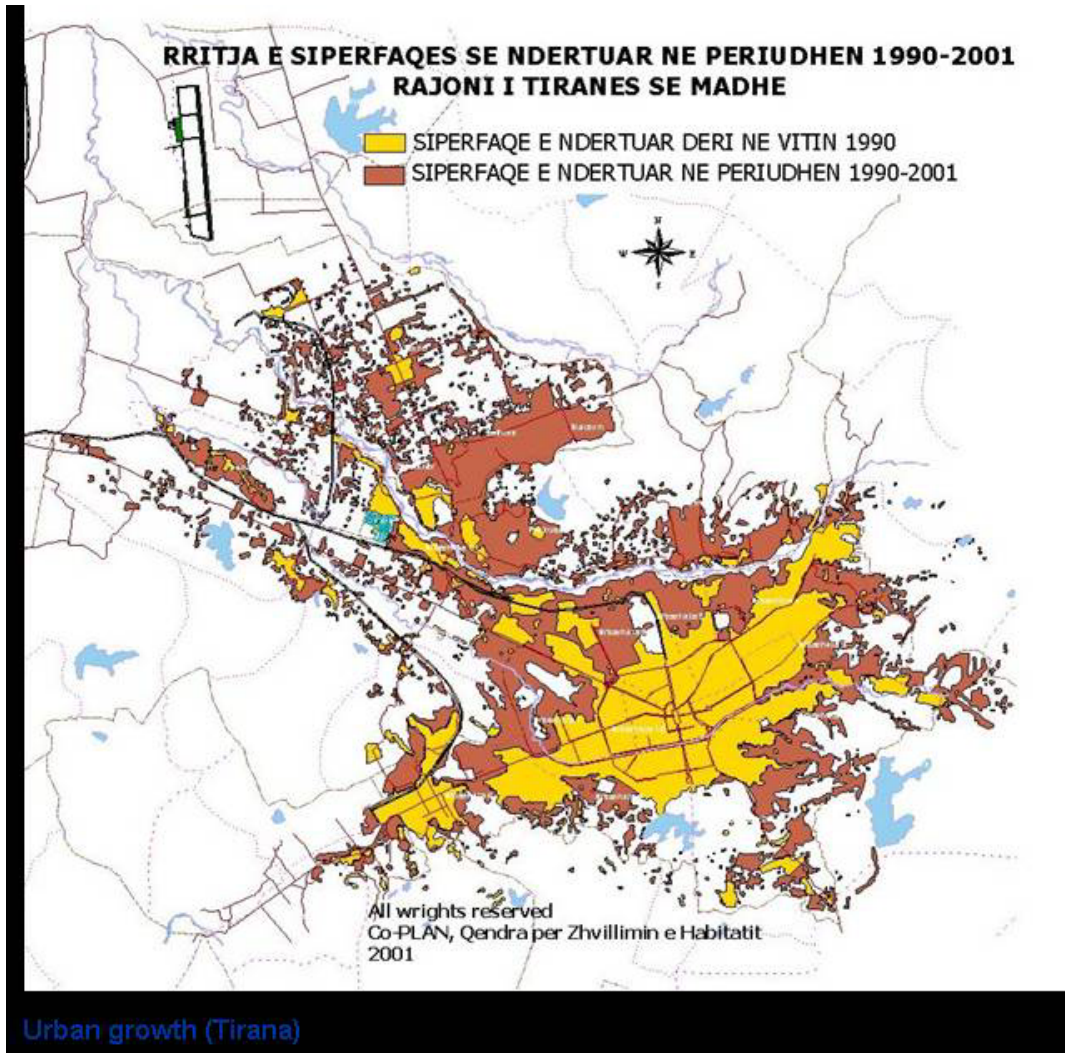
Figure III-8: Rates of private new construction in South East Europe

Source: Tsenkova, 2005: Council of Europe Development Bank Regional Housing Survey

4.2 Illegal construction

Reportedly, a significant share of new housing across the region is illegal leading to the formation of informal settlements in Tirana, Belgrade, Pristina and Sarajevo. Informal settlements vary in terms of standard (from slums to luxurious residences), location (from suburbs to city cores and protected areas) and size (from several small units to over 50,000 residents' settlements). Among other objective reasons, the flow of refugees and DPs has contributed to illegal construction in larger cities. Apart from addressing urgent housing needs, illegal investments in real estate have been used by many households as a 'shield' against instability and hyper-inflation. Often these areas lack roads, basic infrastructure and social facilities (schools, hospitals) thus threatening the public health of large urban centres in the region. Skopje, for example, has 27 illegally constructed neighbourhoods, in Belgrade more than 146,000 buildings are illegally constructed³⁴, and in Tirana 45 percent of the population lives in informal settlements on the outskirts of the city.

³⁴ Sarajevo has close to 20,000 illegal buildings. Most municipalities do not have new master plans, which contributes to corrupt practices and *ad hoc* decision-making in the development permit approval process. To acquire a land use permit, a developer must pay a fee to purchase occupancy rights and access to public utilities. In Sarajevo, a fee ranges between 21 and 43 KM per square meter, depending on proximity to the city center; it is paid to the City Development Institute which passes it on to the canton (Rabenhorst, 2000).



Box III-2 The scale of illegal construction in Tirana

The estimated population of Tirana region has grown from 374,000 in 1990 to 618,000 in 1999. Close to 45% of the population lives in informal settlements indicated with brown on the land use map. Incoming villagers would occupy a plot of land and start building a house, adding floors and finishing construction over time. As a result, Bathore, an attractive hillside on the outskirts of Tirana, is a new neighbourhood of illegal three-storey houses with no roads, sewage, electricity, schools or medical facilities. Those who occupied land first then illegally sell parts to newcomers. Recently, the municipality with the assistance of the World Bank, has launched the Urban Land Management Project, to provide primary and secondary infrastructure in these settlements with a planned 20% contribution by the inhabitants to its cost.

Source: ECE, 2002

4.3 Constraints for new housing development

Notwithstanding progress, housing production capacity in the region remains limited because:

- subsidies for new housing construction are being eliminated
- the lack of serviced land has resulted in high land prices in major cities
- there is an absence of financing (both financial intermediaries and mortgage markets) due to high inflation and the lack of market-driven prices
- cash payments have become the basis for financing home construction in the absence of alternative financing and the unattractiveness of mortgages financed at market rates
- private builders are servicing mainly the upper end of the housing market and little capability is being developed to serve the general market
- the private development industry for moderately-priced housing is unlikely to evolve on any appreciable scale until legal, tax and financial incentives are introduced.

The production of serviced residential land is severely constrained by a cumbersome and lengthy approvals process, as well as by local governments' lack of capacity to finance necessary infrastructure. Typically, cash-constrained municipalities will have no budget allocation for the capital intensive infrastructure work, thus shifting prohibitive costs onto developers and/or consumers. Land supply is a particular constraint for new large-scale, single-family housing developments. In Serbia and Montenegro urban construction land is still state owned which creates substantial supply constraints. In Moldova urban land is auctioned by municipalities, reportedly under procedures that are not very transparent. Overall, this has led to high cost of serviced land on the market and fragmented nature of land supply, particularly in large cities with greater demand.

5 AFFORDABILITY OF HOUSING

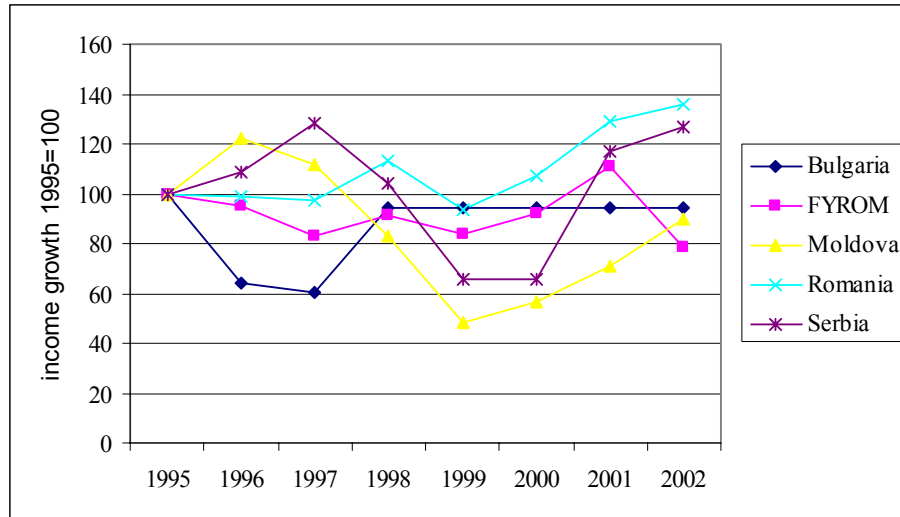
Income is usually taken as an overall index of the demand and purchasing power of households, while the house price is taken as an index of the type of housing supply available. The linking mechanism is the *market transaction*, which brings together households and housing units. Apparently those processes are difficult to conceptualize and evaluate in comparative perspective. There are considerable gaps in data on emerging housing markets, lack of adequate and reliable information on housing market dynamics. There are no monitoring systems in place to reflect the number of housing transactions as well as average prices in local markets. A lot more information is needed on the national and local level to analyze spatial differentiation and affordability of housing in a systematic manner. Given the information constraints, several indicators can be used to characterize emerging markets: *average housing costs*, *average prices in the capital cities* and *price to income ratio*.

5.1 Income differentiation

Economic recession has hit the countries of South East Europe and economic recovery is projected to be very slow. Within that context, income disparities have increased rapidly between the retired, the unemployed, the unskilled workers with part-time jobs on one hand, and the well paid

professionals in the banking sector and senior executives in private firms on the other. Wages in the public sector are controlled and have failed to reach the rate of inflation. Income dynamics using the average income level in 1995 as a benchmark are presented in Figure III-9. Although there seems to be a positive trend in income growth, just two countries – Romania and Serbia – have exceeded 1995 income levels. Decline in Bulgaria (1997) and Moldova (1999) has been particularly steep. These trends have a significant impact on the housing market and affect the ability of households to shoulder increases in housing costs.

Figure III-9: Income dynamics in selected countries in South East Europe

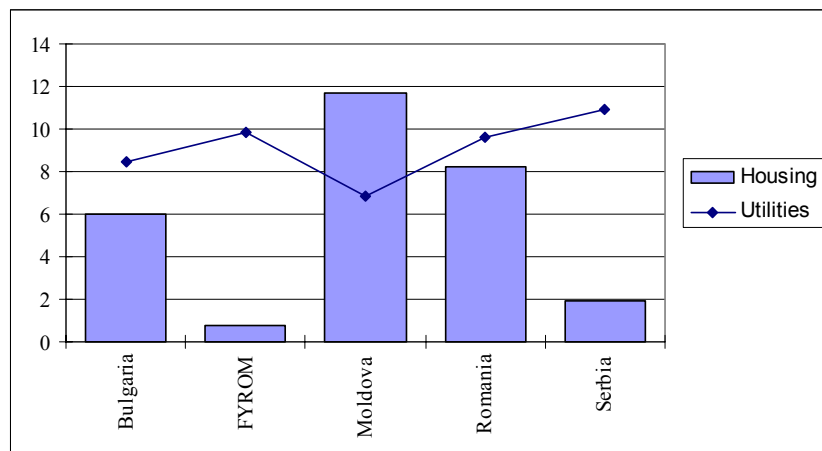


Source: Tsenkova, 2005: Council of Europe Development Bank Regional Housing Survey

5.2 Housing costs

Despite the economic and social hardships, most households in South East Europe own their housing without the burden of a mortgage. In most cases this is the most significant asset for the household, which in some buoyant markets translates into substantial wealth 10-12 times the average annual household income. The housing costs for 2003 in selected countries in the region show a distorted pattern (see Figure III-10). First, housing costs consume less than 8 percent of the household budget (Moldova is a notable exception), which is much lower than the EU average. Second, expenditure on utilities is much higher than spending on maintenance and other housing related costs with a significant imbalance in Serbia and Former Yugoslav Republic of Macedonia. The consequences are no doubt further deterioration in the quality of housing and failure to mobilize resources to maintain significant household assets.

Most of the households entering the market will have to house themselves in the private rental sector. The size of the rental market is considerably small, under three percent on average, with virtually no vacancy rates. Rents in urban areas are high and can reach up to 50 percent of the monthly income. Most of the residential units in downtown areas end up as office space, which reduces the availability of units even further.

Figure III-10: Housing costs in selected countries in South East Europe

Source: Tsenkova, 2005: Council of Europe Development Bank Regional Housing Survey

5.3 Prices in emerging housing markets

Research indicates that less than one percent of the housing stock is traded per year (Buckley and Tsenkova, 2001; Merrill *et al.*, 2003; 2004). Housing market activity includes mostly property transactions of privatized/restituted housing and exchanges within the existing owner-occupied stock. Dwellings currently under construction (many builders sell houses and apartments before completion) are excluded from this estimate.

Previous uniformity of land and house prices has given way to a fairly diversified and sophisticated system reflecting location, quality, accessibility and level of services. This has resulted in the formation of distinct housing submarkets in the urban structure of countries in transition. It is possible to identify the following emerging submarkets:

- city centre
- peripheral housing estates
- prestigious neighbourhoods.³⁵

³⁵ These submarkets are not homogeneous, but incorporate different types of housing which can be further grouped according to structural characteristics (apartments, single-family housing), construction (brick vs. panel structures), and age (pre-war, industrialized housing, etc.). These characteristics in return are reflected in the set of prices or rents (Tsenkova, 1995).



House prices in Belgrade city centre are the highest in the region

The general trend is towards differentiation of the housing market reflected in house price maps of urban areas. Housing demand in the capital cities of countries affected by war has influenced house prices considerably, widening the disparities in local and regional housing submarkets. In the other countries – notably Bulgaria, Romania and Moldova – house prices denominated in US\$ have remained relatively stable since 1997 in the range of US\$ 250-400 at the high end of the housing market (Council of Europe Development Bank, 2004). The aggregate data suggests that the price gap between inner-city housing and apartments in the peripheral housing estates is in the range of 25-40 percent.

There is an erratic market for flats, which fetch very high prices compared to income, particularly in Belgrade and Zagreb with prices ranging from EUR 90-110,000. Bucharest and Skopje follow these prices quite closely although average income is close to one third of the income in Croatia. The market for single family homes, although much more limited has surprisingly similar process. In Bucharest and Chisinau single family homes sell for EUR 120-150,000. In Croatia, with the most buoyant market in the region, prices in Zagreb tend to be similar to the prices in Belgrade, one of the poorest countries in the region.

Table III-5: Housing submarkets in the capital cities in South East Europe

Capital cities Housing submarkets	Tirana	Sarajevo	Sofia	Zagreb	Skopje	Chisinau	Bucharest	Belgrade	Podgorica
Prices in € per sq m for 2004									
City centre	600	750	500	1,440	960	480	1000	1400	800
Housing estates	400	500	300	1200	740	408	800	900	600
Prestigious neighbourhoods	800	900	600	1600	1000	450	1250	1500	1200
New housing	650	-	500	1300	1000	450	1100	1200	1200

Source: Tsenkova, 2005: Council of Europe Development Bank Regional Housing Survey

Inflation and the lack of investment opportunities elsewhere in the economy make property and housing markets financially attractive. Revenue from the informal sector reportedly is channeled into housing pushing prices even further. New housing is more expensive due to its better quality of materials and finishing works, but also due to its location, usually in attractive neighbourhoods where the cost of land tends to be higher. Interviews in Belgrade and Skopje indicate that cost of self-built housing is much lower (by 30-50%).

Effective housing demand. Notwithstanding preferences for homeownership, households throughout the region overwhelmingly do not have the income and savings to purchase a home. Despite the remarkable expansion of the Croatian mortgage market in the past few years and it's much more advanced position compared to other countries in the region, it is estimated that only 14 percent of the households can qualify for a mortgage as opposed to 3 percent in Former Yugoslav Republic of Macedonia or less than 1 percent in Serbia (Registra *et al*, 2004; 2005). However, movement up or down the market is possible for a more significant share of the households who have mortgage free ownership.

6 CONCLUDING COMMENTS: REGIONAL CHALLENGES

Housing represents a vast potential source of economic growth for the countries in South East Europe. *Despite the overall surplus of housing across the region, the mismatch between household structure and the existing housing stock is significant, particularly in Romania, Serbia and Kosovo/UNMIK.* With the quality and quantity backlogs in the sector, large amounts of investments for the years to come would be necessary to improve the housing conditions. Indeed, housing quality is very much related to improved access to safe drinking water and sewer, particularly in rural communities. The importance of housing in the national economy can be measured in terms of investment, employment, consumer expenditure, etc. The value of services derived from housing amounts to 15-20 percent of domestic consumer expenditures and forms a large component of national household wealth. Housing privatization applied in almost universal manner across the region has transferred significant national assets in private ownership. While this has boosted

private investment in the sector, multi-apartment housing in urban areas has deteriorated due to lack of effective legal, organizational and financial measures for its management.

Housing supply is important in the economy since it can be used as a regulatory tool by governments to counteract the cyclical nature of housing investment. Housing supply also generates a series of multiplier effects. It requires considerable investment in the provision of infrastructure and neighborhood services. The maintenance and renewal of housing generates long-term operating costs and requirements for the down stream producers of materials and services. *These important secondary impacts need to be considered together with investment in new housing construction and existing housing as a major engine of growth in transition economies.* Countries in the region have a relatively low, close to 1 percent of GDP on average, investment in housing which has remained stable during the last decade. Not surprisingly, private sector construction has maintained its dominant share due to strong self-help and speculative provision of new housing.

Tenure choices are limited due to the polarized tenure structure and growing affordability constraints. Low wages and employment uncertainty coupled with escalating housing costs and mortgage rates have reduced effective housing demand. Even though households were prepared to pay higher costs for their housing, they found themselves squeezed out of the home ownership market with limited opportunities to improve their housing situation. The gap between income and entry costs has increased dramatically. Current mortgage arrangements, income levels and house prices make housing unaffordable to a large number of households. The previous housing shortage has been replaced by a shortage of affordable housing, suggesting a future deepening of the housing crisis.

IV IMPORTANT HOUSING POLICY AREAS

1 PRIVATIZATION AND HOUSING MANAGEMENT: A TROUBLED RELATIONSHIP

1.1 The social and economic significance of housing management

Housing management in multi-apartment buildings in South East Europe is a major challenge. Some estimates suggest that in the region out of 20 million housing units 30 percent are found in multi-family housing, mostly concentrated in urban areas. The asset management of this part of the stock is critical for the sustainable provision of affordable housing in urban areas.

Privatization and restitution were important factors influencing the problems of housing asset management. Out of 3.5 million public housing units, 2.8 million were privatized to sitting tenants. This represents close to 15 percent of the total stock, 30-40 percent of the urban housing and 40-50 percent of multi-apartment housing (Hegedus and Teller, 2003). *Asset management of multi-apartment housing faces unique challenges – technical, social, and financial.* In addition, emerging strategies need to be understood against the background of legal and institutional transformation in the housing system in general, and the system of housing management in particular. The absence of efficient intermediaries (condominiums and homeowners associations) has led to deterioration of the stock. Poor performance of housing management is related to affordability constraints faced by households and their strategies to cope with escalating price of utilities and housing related services (Council of Europe Development Bank, 2004). The underdeveloped market for housing management restricts competition, which along with the uncertain legal framework makes it difficult to mobilize funds for routine investment in maintenance and renovation planning (Butler *et al.*, 2004). The scale of some multi-apartment developments poses a particular challenge in terms of coordination and consensus building on priorities among more than 200 households. New homeowners also fail to realize the economic and financial importance of their housing assets.



Multi-apartment development: the gate of Chisinau

1.1.1 Legacy of the old system of housing management

Most of the countries in the region inherited a system where municipal (state owned) maintenance companies were managing both the public and private multi-apartment housing stock. The fees for day-to-day repairs and improvements were nationally regulated with little differentiation with respect to quality, location or price of the dwelling. Typically monthly charges were collected on the basis of a fixed rate per sq m of dwelling space with some adjustment for the type of construction and number of storeys in the building. A wide range of detailed regulations established life cycle assessment rules and schedules for investment in capital repairs, but in practice little work in that regard was carried out (Hegedüs *et al.*, 1996)

Maintenance companies, mostly municipal or enterprise-owned, would typically divide the urban area and carry out a range of construction, utility repair and housing maintenance work. These companies were large and economies of scale were essential for their operations. Housing management and maintenance was not the core of their business; the activity was not self-funded and was subsidized by frequent transfer of funds from other businesses. In Croatia, before the transition, 70 percent of the whole housing stock was maintained by publicly owned companies, while in Bulgaria this share was close to 90 percent (Council of Europe Housing Network Country Reports, 2003). There was no competition between municipal maintenance companies, tariffs were set below the economic cost of services and the companies worked under budget constraints typically at lower level than what proper maintenance would have required.

In Former Yugoslavia the individual units were not registered in the Land Books, representation of tenants in management companies was not legally defined. In other countries, such as Bulgaria and Romania, if owners' associations existed they had no real control over management decisions and/or funding. The public maintenance companies collected the user charges for utilities from the owners and/or tenants for common areas as well as for the buildings where individual metering devices often did not exist (Moldova and Albania). They also had contractual relations with the public service companies and were highly subsidized by the state. Since new housing construction was a priority, little was allocated for investment in routine maintenance and renewal.

The legacy of centralized extensively subsidised housing management had important consequences:

- No competition in the provision of maintenance services
- No control over management on behalf of private owners
- Deferred maintenance and no reserve fund to absorb cumulative costs
- Lack of financial discipline and cost recovery mechanisms.

1.1.2 The new system of housing management

The housing reforms across the region in the last decade have created new conditions for housing management. A series of legal, institutional and financial reforms have been carried out, but the transformation process has failed to define a system that is efficient. Essentially the transition from a centralized and excessively subsidized system to one based on market competition, private ownership and cost recovery for housing services has been particularly difficult.

Legal reforms introduced in the mid-1990s provided the legal framework for the organization of owners, as well as procedures for the enforcement of rules and obligations. In certain countries

(Romania, Albania, Moldova and Montenegro) the new associations could act as a legal entity, in other cases, the new institutions did not enjoy these advantages. The new laws defined with various degrees of detail rights and responsibilities of ownership, and the procedures of sharing common costs. Several barriers to the implementation of these laws exist. First, individual owners were reluctant to establish new organizations and assume a wide range of responsibilities without the appropriate legislation.³⁶ Second, the administrative procedure of establishing a condominium as a legal entity was quite complicated and costly. Third, the laws typically provided largely inadequate guidelines regarding voting procedures, cost-sharing mechanisms and enforcement possibilities.

The municipal maintenance companies also faced a different situation. The increase in user charges (water rates, district heating, etc.) and the decrease in subsidies were financially stringent. This problem crowded out the spending on regular maintenance and emergent repairs. Without state or enterprise subsidies, and poor collection of regular maintenance charges from owners, the typical reaction was 'low fee – no service' which accelerated the deterioration process in multi-apartment buildings. In some countries municipal maintenance companies were divided into smaller units, privatized, or restructured in accordance with construction sector policies. This forced institutions to seek internal efficiency gains in order to operate exclusively without subsidies, although reportedly some emergency assistance is provided (e.g. in Podgorica, Chisinau, Belgrade). Clearly housing maintenance is significantly under funded in the region; in some countries the tariffs cover only 20-40 % of the costs required for proper maintenance (Council of Europe Development Bank, 2004).

1.2 The evolving legal framework for housing management

Most countries in the region have introduced condominium ownership or its equivalent based on historical interpretation of multi-apartment ownership in existing property legislation. While there are differences on the theme, condominium ownership is based on the absolute ownership of a unit, plus an undivided interest in the ownership of the common elements owned jointly with the other condominium unit owners (e.g. roof, elevator, building land, etc). Each owner may have a separate mortgage for his or her individual unit and is individually responsible for making the payments and real estate taxes on it. In addition, owners contribute to the funding of common expenses for repair of structural elements, building installations and utility charges for common areas.

The matrix in Table IV-1 summarizes the developments in the area of multi-apartment management in South East Europe.

The new legislation typically defines *Homeowners' Associations (HOAs) or Condominiums* as the institutional entity which manages multi-apartment housing, meets financial obligations, initiates contracts, and renewal projects. Most HOAs are not registered as legal entities, thus, behind every contract there are individual owners. Although the new condominium legislation in Albania, Moldova and Romania stipulates mandatory HOAs, only 20 percent of the condominiums in Romania and 15

³⁶ The privatization to sitting tenants preceded the Law on Condominiums (e.g. Albania, BiH and Moldova). In Moldova, during the privatization period, the apartments were transferred into private ownership, whereas the buildings remained state owned. After 1997 also the buildings were transferred to the homeowners' associations.

percent of the ones in Moldova have established such associations as legal entities. In Albania, progress in that regard has been very limited.³⁷

Table IV-1: Major determinants of housing management in South East Europe

Country	Legislation	Management responsibility	Maintenance	Costs/Financing
Albania	Law on Condominiums 1993	Condominiums Non-legal entity Compulsory	Contracted mostly to public companies/self help	Homeowners Proportional share
Bulgaria	Regulation on Management of Condominiums (recent changes in 2002)	Condominiums Non-legal entity	Contracted to private companies	Homeowners Proportional share
Croatia	Law on Property & Ordinance on Building Maintenance, Law on Contractual Relations	Co-owners	Public enterprises/ or Registered private firms Mandatory maintenance agreement	
BiH	Apartment privatization law	Co-owners under a contract with a public management company	Public enterprises; Mandatory maintenance	Homeowners/regulated charges for maintenance
Romania	Housing Act 1996	Condominiums Compulsory	Contracted mostly to private companies	
Moldova	Condominium Law, 2000 Government Decision on repair, maintenance of and payment for public utilities.	Condominiums Compulsory	Contracted to municipal companies/self help	Homeowners Proportional share
Former Yugoslav Republic of Macedonia	Law on Property & Other Landlord Rights, 2001 Housing Law 1998	Co-owners under agreement on Mutual Relations Resident Council mandatory	Private companies	Homeowners
Serbia		Co-owners Compulsory maintenance contract	Public maintenance companies/regional differences	Homeowners Minimum maintenance charges regulated
Montenegro	Law on Floor Property	Co-owners	Public maintenance companies/private in smaller cities	

While costs are expected to be borne by the owners, it is important to state that the new *Condominium Laws*, or similar provisions in countries across the region, differentiate between decisions with low cost consequence and decisions on higher investments, such as renovations. The first requires normally a simple majority of votes, the latter a higher share of support (e.g. 67% of owners in Romania, 75 percent in Albania). In cases where HOAs have the right to sue the

³⁷ In Albania, the development of HOAs is inhibited since any new ones are required to take over the debts owed to the municipal service companies from that block of apartments. This is one of the reasons why only 600 condominium associations have been registered and so few private maintenance companies are seen on the market (ECE, 2002).

associated owners for non-payments (Moldova, Bulgaria, Serbia) they possess a tool to enforce the decisions, but the procedure tends to be very long and expensive.

The matrix indicates a diversity of experiences, however, most countries in the region have a significant involvement of public management and maintenance companies, in Serbia and BiH the process is even more regulated in terms of providers and costs. In Bulgaria, Albania, Romania and to some extent in Croatia, HOAs have the right to contract any companies or private person to carry out maintenance. In these cases competition has had a positive effect on the performance of the maintenance companies (public and private) with respect to prices and quality. In countries where the market was liberalized, there is an overall lack of professional management companies which are licensed to carry out technical assessment and asset management. The process is also challenged by the lack of organizational and managerial experience of the newly elected 'representatives' of the HOA or the lack of complete technical and engineering documentation of the buildings.

In summary, recent experience across the region indicates that a fair amount of effort was directed to the improvement of the legal framework. However, without an efficient enforcement system its effects are questionable. Albania, Moldova and Montenegro are prime examples where ambiguity in the legislation, coupled with economic difficulties of the owners has created cumulative debts and no action to resolve the problems with asset management.

Box IV-1 Managing practices in Croatia, Bosnia and Herzegovina, Romania and Serbia

In **Croatia**, management and maintenance of apartment houses, including regular operation, improvements and other works, are regulated by the *Ordinance on Buildings Maintenance*. Maintenance of apartment houses is financed by the co-owners on the basis of the contract with public or private firms registered for house management and maintenance. Only registered companies can provide service for large buildings" (Council of Europe Network Country Reports, 2001).

In **Bosnia and Herzegovina**, the *Law on Privatization of Socially Owned Apartments* provides no guidance on organization or management of apartment buildings after privatization. Rather, it authorizes the cantons to pass regulations on the operation of housing after privatization. The first such regulation has been passed in Tuzla and is expected to be a model for other cantons. It states that for a period of three years the new owners will pay a monthly fee to the former owner or seller for maintenance and repair of the common property of the building, and only the former owner can decide how to spend the funds. The system effectively strips the new owners of the right to manage their property (Rabenhorst , 2000).

According to the *Housing Act of 1996*, in **Romania**, the management of multi-unit buildings is the responsibility of the association of owners (HOA). The associations' rights and obligations are: approving and amending the budget, collecting financial contributions, imposing penalties in case of late payments, concluding contracts and most importantly, managing, maintaining, repairing, replacing and modifying the common parts of the buildings. The HOA also approves or amends decisions on rules and regulations, monitors the condition of the building and keeps the building's technical logbook updated. Legal or natural persons, associations, public agencies or specialized companies appointed by HOA can manage the condominium. (ECE, 2000).

In **Serbia**, in order to carry out the maintenance, the "Owners Assembly/Council" can contract public or other companies for housing management and maintenance. If no maintenance is provided, the municipality will appoint a public municipal company charging the account of the apartment building or directly its tenants/owners through common bill for other public services such as rent for building land, garbage, ecological protection, central heating, water, sewerage and electricity in common areas. The supervision is

delegated to the Municipal Housing Department. Penalties are fixed from 100 to 10.000 Dinars (from 1,7€ to 167€) for different types of violation (Council of Europe Network Country Reports, 2003).

1.3 The triple challenge for asset management

1.3.1 Technical conditions



Multi-apartment housing built in the early 1990s in Pristina with visible signs of deterioration

The collective form of state and enterprise housing provision in South East Europe in the past has an important effect on housing management, not only in terms of institutions and legal challenges, but more importantly related to the technical conditions of multi-apartment housing. Every observer in the region concludes that the deterioration process in parts of the urban stock has reached a critical stage. Most of the buildings were constructed in the 1970s and 1980s to respond to rapid urban growth and migration to the cities. Panel technologies featured prominently in Bulgaria, Moldova and Romania, while former Yugoslavia experimented with industrialized methods of high rise construction. Although most urban multi-apartment housing is new, its initial quality was not very high. Subsequently, inadequate investment in maintenance as well as deferred capital repairs have aggravated the technical problems with leaking roofs, obsolete installations, elevators and poor wall insulation. Anecdotal evidence reports cases of falling walls, balconies, chimneys, etc. In some cases buildings have unsafe and hazardous conditions which clearly do not meet the Building Code requirements. The function of inspecting and initiating action is usually vested with central

inspectorates (Romania, Former Yugoslav Republic of Macedonia, and Albania), in practice little is done to enforce these rules.

The quality of the multi-apartment housing in Southeastern Europe is mixed; there are no assessments or reliable information about the level of investments needed in the sector. A recent study carried out by the World Health Organization found there to be a high incidence of respiratory problems in panel-built housing in some transition countries, likely to be associated with poor housing conditions. The health of residents of multi-family housing may also be adversely affected by dwelling size and layout; internal air quality; temperature; infestation with pests; and exposure to noise. The condition of the housing stock is directly related to provision of public sector services



such as water, heating, garbage collection. The funding gap for these companies gradually added up to lack of working and investment capital. Depending on the magnitude of the financial problems, the array of adaptive actions included reducing/expansion investments, eliminating postponing replacement, deferring maintenance, and reducing services. These strategies have had a detrimental impact on the quality of housing. The proper maintenance and renewal of the housing stock should be connected to the improved performance of utility companies.

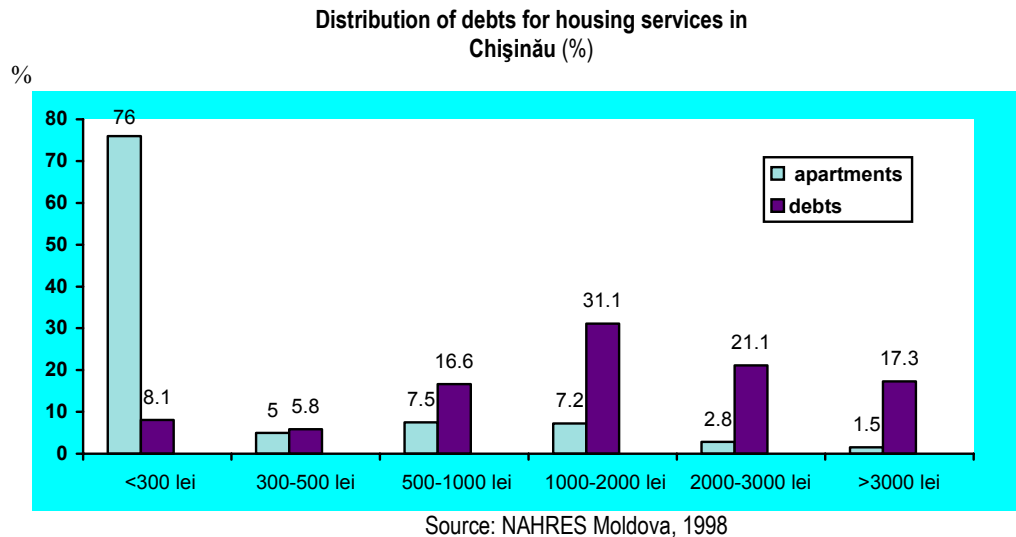
Low income multi-apartment homes in Skopje

1.3.2 Social and economic constraints

In most of the cases multi-apartment buildings have a social mix, which is inherited from the previous system of housing allocation. Income and labour market inequalities in recent years have changed dramatically the socio-economic profile of these egalitarian societies. Differences in market prices of housing properties have become one of the largest sources of inequality in urban areas – some owning an asset, others – a liability with large requirements for investment in renewal. A characteristic feature of the ‘nations of homeowners’ in South East Europe is the lack of debt related to their housing assets.

Box IV-2 Cumulative debt for utilities in Moldova

The level of payment for housing services in Chisinau is some 80 percent. The debts to service suppliers in 1998 exceeded 44 million lei. The number of “debtor-apartments” registered and their distribution is presented in the chart below. The data analysis shows that the majority of debtors pay the services with a delay of 1-2 months, having debts up to 500 lei. There are categories that practically “gave up” paying for services offered accumulating debt in an amount exceeding 2-3 thousand lei.



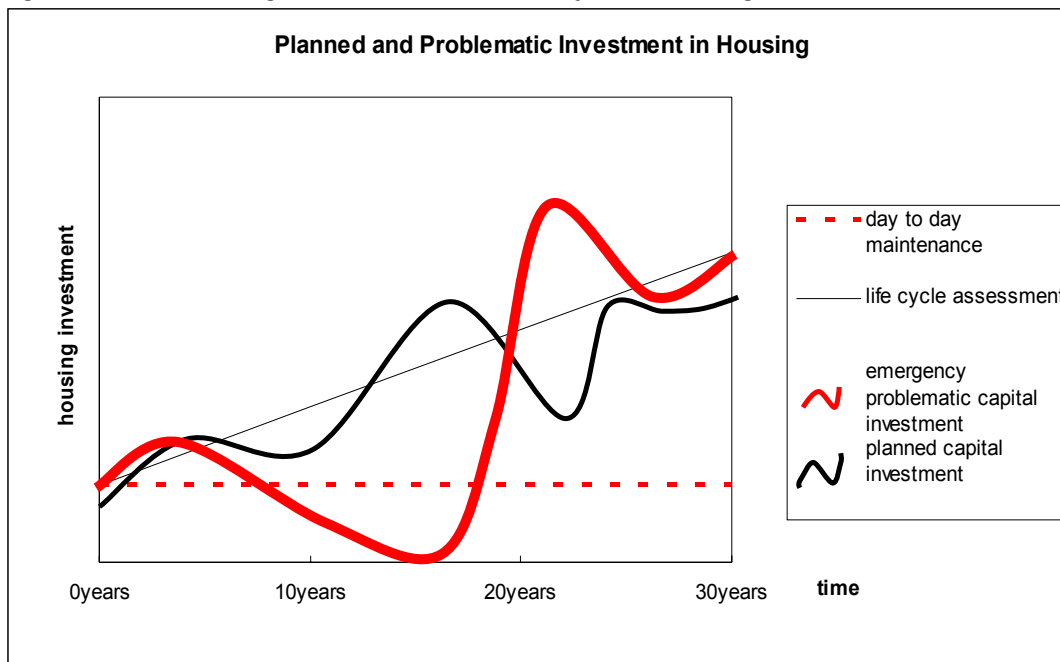
The transition and the war in the Balkans have led to an impoverishment of the population. One of the reasons for the poor maintenance of multi-apartment buildings lies with the difficult financial situation of tenants and owners. In most cases, the cost of housing related services has increased in real terms, but quite unevenly: energy costs and central heating costs increased the most, crowding out other expenditures. The prices of housing related services increased at a period of economic decline, which in the absence of adequate system for social support resulted in accumulated arrears. In the absence of support for housing and utility services, more affluent owners have continued to subsidize their neighbours and to finance urgent repairs. Others have just cut back on individual consumption, such as central heating.

Despite different coping mechanisms, arrears are wide spread and the lack of payment discipline – common. Studies have reported lack of respect for the law as well as refusal to pay regular contributions for the maintenance and modernization of common areas in privatized residential buildings (ECE, 2002; 2005).

The problem of deferred maintenance is not only related to affordability (ability to pay), but also to weak willingness to pay, because many homeowners who received privatized dwellings in the early 1990s do not understand that they have an asset that can increase or decrease in value. Many of them also fail to understand that ownership carries obligations as well as rights. Property values are also affected by uncertainties about ownership of, and responsibility for, the building and the immediately environment.

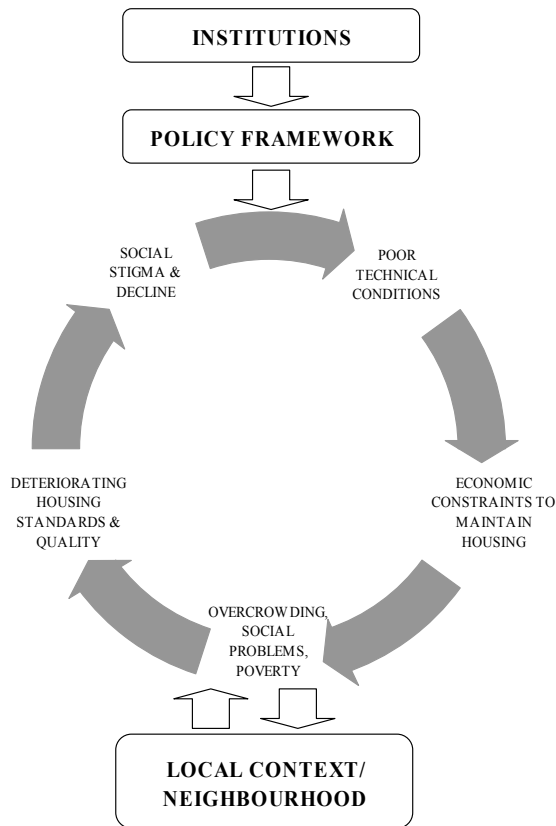
1.3.3 Financial constraints

Figure IV-1 *Housing investment over the lifecycle of buildings*



Lack of adequate financing is considered a major constraint for asset management. While recent years have introduced a budgetary discipline and more transparent and accountable budgetary processes, chronic underinvestment in maintenance has left owners with major technical challenges. As Figure IV-1 indicates investment is cyclical and the requirements for major repairs and improvements after 10 years grow exponentially. In most of the cases multi-apartment building have reached this critical stage in the lifecycle assessment where a major infusion of capital will be needed to bring them back to standards. The buildings have poor quality and the current stream of revenues does not ensure sufficient funds for renovation and improvement of installation and the building envelope (roof, foundations, elevation, etc). Renovation planning is also problematic within the context of unclear financial and management responsibilities. Furthermore, in addition to the traditional technical and organizational challenges, it is difficult to borrow funds for major improvements, which requires audited financial statements of the condominium and collateral. Banks often request individual owners to sign a mortgage or a loan contract, which makes the process extremely cumbersome and costly. Lending institutions have not developed any products for renovation of multi-apartment housing and the high interest rates certainly discourage borrowing.

The financing of rehabilitation requires specially designed credit lines and some incentives (tax exemptions, rebates, etc) to facilitate the process. The key issue is mobilization of funds, savings (including intergenerational savings), loans and mortgages to pay for rehabilitation and renewal. Various mechanisms can be used to encourage financial institutions to develop competitive products (state guarantees, shallow subsidies, insurance). This needs to be complemented by targeted subsidies and reversed mortgages for low income owners to allow renovation measures to proceed at a large scale for the whole building.



In summary, arresting the cycle of decline in multi-apartment housing requires a cluster of policy measures that enable more effective asset management. Figure IV-3 stylistically represents the different stages in the cycle – poor technical conditions, social and economic difficulties of residents, overcrowding, poverty and deterioration of housing quality. All these phenomena feed into the next stages where poverty and deprivation becomes an attribute of particular neighbourhoods. There are signs that some of the housing estates in South East Europe manifest some of these features. Prices have declined and more affluent owners fearful of theft and vandalism are moving away. This new phenomenon is associated with increasing segregation of marginalized people on housing estates. These manifestations of social exclusion are related to the creation of ‘social ghettos’, and correspondingly, the isolation of marginal communities in substandard housing.

Figure IV-2 *Arresting the decline in housing estates through better asset management.*

Combating social exclusion is a central theme of EU and other institutions such as the Council of Europe, Council of Europe Development Bank and World Bank. It needs to be integrated in housing and social policies in the region. Specifically, it is important to prevent the marginalization of weaker groups as a result of changes in the housing market and/or inefficient legal, institutional and financial framework to manage multi-apartment housing.

2 PUBLIC RENTAL HOUSING: CHALLENGES AND FUTURE PROSPECTS

Countries in South East Europe have the legacy of a controlled 'command' housing system for the provision of public rental housing. The system was based on low housing costs, centralised production and state or enterprise control over housing allocation. The bureaucratic allocation was administered through 'waiting lists' for housing maintained by municipal housing authorities and, in the case of Serbia and Former Yugoslav Republic of Macedonia, by public enterprises. In the context of this shift away from direct state intervention to market-based provision of housing services in the 1990s, municipalities have emerged as the new social landlords with major responsibilities for housing the poor and disadvantaged (ECE, 1997; 2001).

In most countries, as a result of mass privatisation, the size of the social rented sector has been reduced mostly through transfer to sitting tenants (free of charge, through vouchers or nominal fee). While these populist policies have been equally attractive across the region, governments have been reluctant to introduce less popular measures such as cost recovery of rents or deregulation of maintenance and management (Lux 2003; Tsenkova 2004).



2.1 Regional perspective on public rental housing

Despite rapid privatization, the public rental sector in the region includes 462,820 units. South East European countries have chosen different strategies to address major issues related to access, management and financing of social rented housing. While these strategies have not been explored in a systematic manner, there seems to be a consensus that the countries are moving in the same direction -- towards residualization. The term public housing is used to define the social rented sector. In some countries in the region (Romania and Serbia) social housing at the moment is a subcategory of municipal housing.

Tenants or owners: illegally occupied public housing in Kosovo/UNMIK

The analysis starts with a review of the three critical elements characterising the public housing sector -- ownership, rent and allocation policies. These are summarized in Table IV-2.

Table IV-2 Major characteristics of public housing in the region

	Public Housing % of total	Number of Units (thousands)	Management & Maintenance	Allocation	Rents
Bulgaria	3.00	110.92	Municipal maint. firms	Targeted based on 4 categories, Tenants in rest. property have a priority	Locally controlled with some central guidance
Croatia	2.80	51.84	Enterprises with municipality as majority shareholder	Poorly targeted, previous tenants	Centrally controlled
Moldova	5.00	64.56	Municipal maintenance firms	Less targeted	Centrally controlled
Former Yugoslav Republic of Macedonia	0.60	4.19	Central Public Enterprise for Management of Residential and Commercial Real estate	Less targeted, various categories including government employees	Centrally controlled
Romania	2.20	178.36	Municipal maint. firms with some budgetary org. in larger towns	Targeted, mostly socially disadvantaged; tenants in rest. property--priority	Centrally regulated, set at 25% of tenant income
Serbia	2.10	52.95	Municipal maint. firms	Less targeted, various categories including young families, public officials	Centrally controlled

2.2 Changing institutional context

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

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

Rent Setting

Previously highly dependent on central government control, municipalities have become the new social landlords in most countries across the region. The institutional reforms in the housing system, and the new financial regime for operation, allow more autonomy in decision-making but also imply a growing social responsibility to deal with poverty and to house the socially disadvantaged. Reforms in the legal framework in Bulgaria provide the opportunity to set rents locally³⁸; in Albania³⁹, Moldova, Serbia and Romania, rents are controlled at the state level. In most countries rents are set below market levels, with 'flat' rent structures not reflecting the value or the location of the property. In Moldova, for example, rents are 0.2 lei per sq m per month⁴⁰, in Montenegro EUR 0.01, in Serbia 2.18-3.5 dinars (EUR 0.03-0.05) while in Romania rents are 25 percent of household income (10% in social housing). Furthermore, in Romania, Albania and Croatia the legislation stipulates that rent control is applied to housing subject to restitution.⁴¹ The policy of uniform rent constitutes a universal subsidy that is poorly targeted to households in need. Rent structures are not sensitive to demand and there is no mechanism for exit from the sector when the household's income increases above a certain threshold (Lux, 2003; ECE, 2001). Interviews with housing managers in Chisinau, Belgrade, and Skopje at the end of 2004 indicate that rents barely cover operation costs, but introducing cost recovery for housing services tends to be politically unpopular. Correspondingly, municipal maintenance companies carry out marginal upkeep and resort to patchwork maintenance and emergency repairs.

Allocation

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

In most countries in the region, priority today is given to households with special needs: orphans, the handicapped, chronically ill, the elderly and single parents. Most municipalities have revised their housing waiting lists along these lines. Tenants in properties subject to restitution are given priority in Bulgaria, Romania and Croatia. Since tenant protection in public housing is still considered to be strong, there is little turnover and almost non-existent vacancy rate in urban areas.⁴² Despite the changes in the previous legislation, which provided life-long guarantee of

³⁸ However, the *State Property Act* recommends the basic rent per sq m to be BGL0.30 (US\$0.14). In practice most municipalities are using this benchmark with rent levels increased by 40%.

³⁹ In the case of Albania this refers to the denationalised housing stock. In future social housing projects rents will be determined locally using the methodology developed by central government.

⁴⁰ The standard rent ranges between 15-30 lei per month while payment for heating tends to be 300 lei per month.

⁴¹ In Romania rents are regulated centrally; Government Emergency Ordinance 40/1999 establishes the protection of tenants.

⁴² In Croatia the *Law on Apartment Renting and the Law on Tenure* introduced the right of 'protected tenant' with the option to conclude an indefinite contract and pay uniform protected rent. Tenants in apartments subject to restitution also received the status of a protected tenant. Repossession by the owner is conditional upon the provision of a flat which can be privatized at the same conditions as the socially owned flats. Similar provisions were introduced in denationalized rental properties in Albania and Bulgaria.

tenant rights and provisions for inheritance of rental housing, tenant eviction for non-payment today is costly for the social landlord, takes at least two years to be enforced, and certainly appears to be politically unpopular.

2.3 Financial support for public housing

In most countries in South East Europe, the State is almost invisible in social housing policy. In Bosnia and Herzegovina major responsibilities for housing are delegated to the entity level and correspondingly to the cantons and municipalities. Across the region direct housing subsidies from the state budget for new construction of public housing have been eliminated, although some ad hoc funding for pilot projects is provided (Romania is a notable exception). Municipalities have acquired autonomy in the management of public rental properties.⁴³ This devolution in governance, essentially beneficial for locally appropriate responses to housing market conditions, has left a lot of unfunded mandates. Under the present regime of fiscal austerity, the practical implementation of social housing policies is essentially driven by what municipalities can afford, as opposed to rational responses to housing need. Surveys in Bulgaria and Romania have indicated that most municipalities have financial difficulties and refrain from investment in new provision (Lux 2003).

Box IV-3 New social housing program in Kosovo/UNMIK: from temporary shelters to sustainable social housing

The need for social housing and post-war assistance to needy families in Kosovo/UNMIK is great. Recent government initiative pioneered the development of social housing policy and two pilot projects—in Decan where 16 apartments (1.026,64 m²) were built, and in Skenderaj with 21 apartments (1.493,78 m²). The average costs were in the range of EUR 350-400/m². Capital investment came from the central budget, municipal involvement and private/ public partnerships. The projects have a mix of 25 percent commercial tenants (businesses and retail) and 75 percent social tenants.

The cost sharing of planning and infrastructure proved to be attractive to private investors. The pilot projects were an important source of policy learning and experimentation. The Ministry of Environment and Spatial Planning developed Social Housing Guidelines with technical standards for social housing projects and regulations on allocation, beneficiaries and rent, which will be the framework for further action.

Source: Ministry of Environment and Spatial Planning Kosovo, 2005

⁴³ In Romania municipalities are obliged to house people with income below the national average. Public housing is financed by the local budgets with some transfers from the state.



New social housing in Kosovo/UNMIK

In Former Yugoslav Republic of Macedonia the State allocates some funding for the management of state-owned housing; 25% of this annual amount is reserved for provision of housing to welfare recipients in accordance with the *Welfare Protection Law*. In Moldova and Serbia, despite some attempts to reduce housing subsidies, new programs for construction or purchase of dwellings for specific groups have been introduced.⁴⁴ While the results have been limited, the subsidy 'loading' is not negligible and the targeting tends to be rather low (ECE 2002; 2005). In addition, Moldova still keeps a detailed discount system of various benefits, including support for utilities.

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

2.4 Maintenance practices

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

⁴⁴ Recently Belgrade municipality initiated the construction of one hundred flats are intended for households based on social need. The tenancy of rental flats is limited to two years, with the possibility of contract renewal.

Box IV-4 Moldova's problems of quality, management and social segregation in public housing

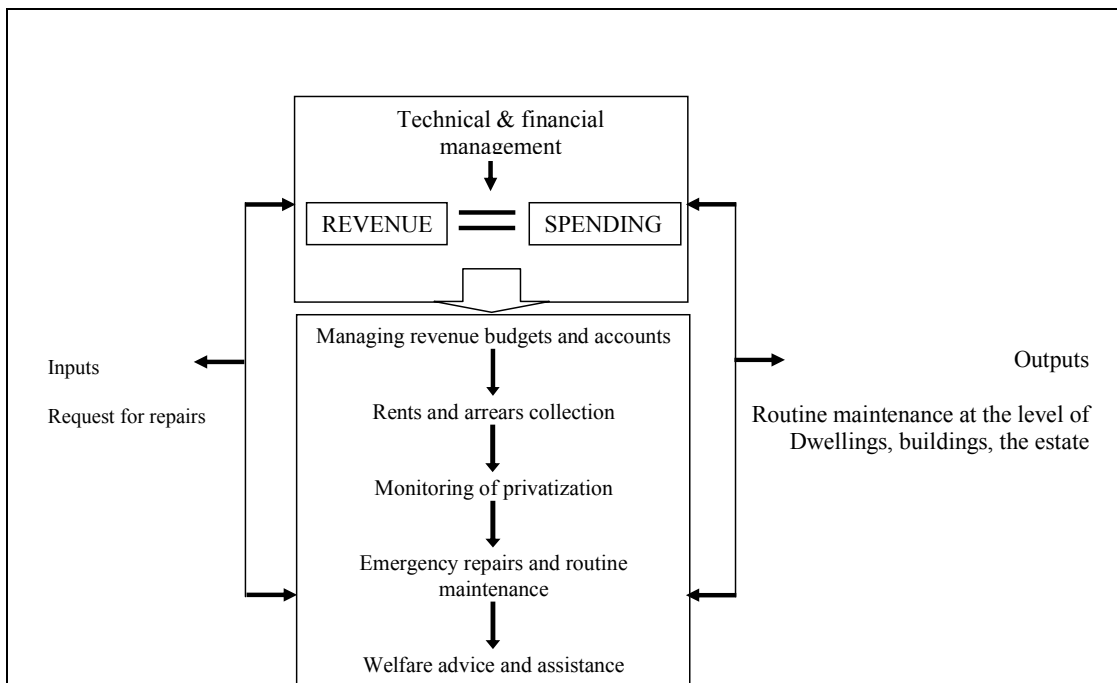
Most of the public housing in Moldova today includes dormitories. They were not designed for permanent residence and living conditions remain problematic in urban areas. As better-off families try to escape the small, crowded units equipped with minimal conveniences, dormitories tend to concentrate low-income families. The maintenance level is extremely low and the design does not allow improvements.

Former company-owned housing has become another place for socially vulnerable households because, just like dormitories, it was used to house workers temporarily providing basic services. Tenants are reluctant or too poor to privatize the units. An additional set of problems arises from dubious ownership status; some buildings are owned by enterprises, which have gone bankrupt. According to the authorities of the central district in Chisinau, there are 90 company-owned residential buildings in a similar situation. Local authorities are hesitant to take over ownership due to massive financial liabilities associated with lack of standards and poor maintenance.

Source: World Bank Report on Millennium Development Goals, 2004

Given the lack of supply-based financial support for the maintenance of public housing and inadequate assistance on the demand side, very few municipalities invest in housing renovation and improvement. Within the general policy framework of city-wide control and decision-making, the 'day-to-day asset management' appears to be the norm. It is characterized by a shrinking portfolio, transfer of management to home owners, and phasing out of responsibilities. The emphasis is on operational management and efforts to balance the budget while avoiding major technical and social problems. Activities are performed very much on an *ad hoc* basis.

Figure IV-3 Day-to-day asset management

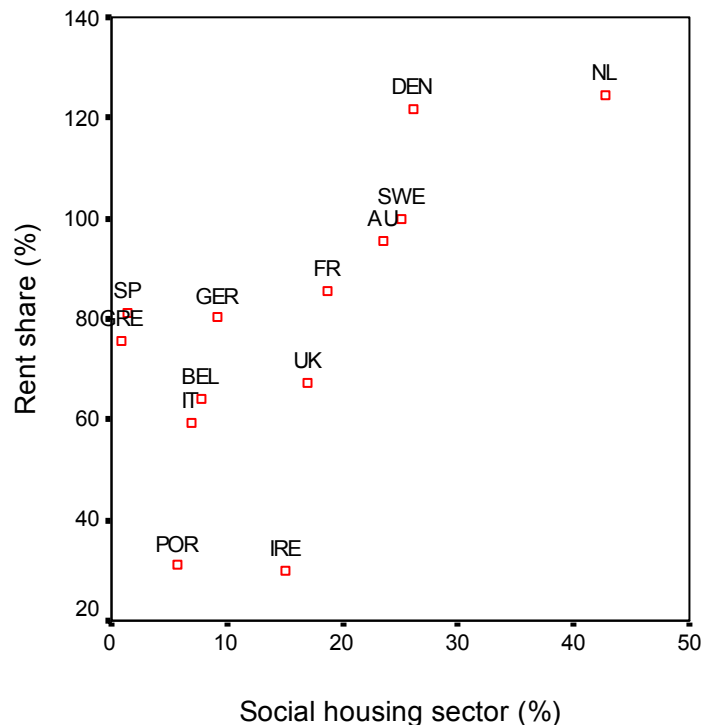


As presented in Figure IV-3, the 'day-to-day asset management' includes two components. The technical management component focuses on monitoring and supervision of local staff involved in emergency and routine repair, while the financial management component centres on revenue management, rent and arrears collection. Interviews with housing managers demonstrate the growing importance of financial management, particularly in the context of inflation and little to no subsidy for capital improvement and investment. The operational input-output model often applied in the housing estates with public housing involves planning and provision of basic packages of routine maintenance services – *outputs* – in response to requests for repairs formulated at the level of individual dwellings and/or buildings – *inputs*. In addition, managers perform social and welfare functions advising tenants on social assistance and support to manage rent arrears.

2.5 Conclusion: the future of social housing

These relationships sketched in broad strokes reflect very general aspects of the role of the social rented sector, its character and asset management policies in different national housing systems. The previous analysis has highlighted that in practice, the sector still operates like a 'command' system where ownership and management is vested with the state and municipalities and pricing policies are not sensitive to demand or quality of housing services. Allocation decisions in the shrinking portfolio continue to rely on bureaucratic processes, although preference is given to socially disadvantaged households. Maintenance and management is still a municipal monopoly and public landlords manage most of the housing.

Figure IV-4 *Rents in social housing as a share of rents in private rental vs. sector size in EU, 2000*



Source: Tsenkova and Turner, 2004

The Western European experience demonstrates that there are two principal options for social housing. Although there is no homogeneous European form of provision, countries in the 'north-west' appear to have a larger share of the stock managed by a greater diversity of social landlords – municipal companies, housing associations, non-profit and private landlords. Distortions in pricing are less prevalent, since rents ensure cost recovery for services and adjustment to a range of property attributes (e.g. The Netherlands, Sweden and Denmark). By contrast, countries in the 'south-west' have a smaller social housing sector, managed by public landlords (e.g. Italy, Greece, and Spain). The government shields the sector from competition and uses it as a safety net. The two figures below illustrate these relationships using data from the European Household Consumer Panel. Figure IV-4 presents two variables -- rents in the social rented sector as a share of private sector rents vs. the size of sector for different countries in the EU in 2000.

In South Eastern Europe, given the small size of the sector, public rental housing will be residual, operating as a 'command system' which targets low-income households. In this case, rents may be set as a share of income. We are then close to the old 'in-kind' type of social housing policy, when the sector functions more like a safety net. Even under these circumstances, it will be important to introduce housing allowances, which would ultimately seek to integrate the administration of all household welfare payments (e.g. including utility compensation payments and rent) within a common, simple, transparent, framework, which is exclusively targeted to the needy.

3 HOUSING AND REFUGEE RELATED ISSUES IN THE REGION

3.1 The Scale of the Problem

*Southeast Europe has experienced the largest refugee crisis in Europe since World War II. By 1995, the region witnessed the displacement of more than 2 million people creating unique housing challenges.*⁴⁵ Serbia and Montenegro still host the largest number of refugees and IDPs in Europe, including 226,104 IDPs from Kosovo/UNMIK. While the majority lives in private accommodation, some 17,000 remain in collective centres. Most of the 186,451 IDPs in Bosnia & Herzegovina need a durable solution (Table IV-3). Kosovo/UNMIK and Croatia also have a sizable share of IDPs. A crucial element underpinning the return of refugees to Bosnia & Herzegovina is the implementation of the property laws resulting in close to 93 percent of the property claims being resolved at the municipal level.⁴⁶ Creating an atmosphere for sustainable return through the effective implementation of the right to property, education, housing, health care and employment is an integral part of the overall strategy of stability and development in South Eastern Europe.

Table IV-3: Refugees and displaced persons in need of durable solution, 2005

Country	Refugees	Displaced Persons	Total
Serbia & Montenegro	149,915	226,106	376,021
Kosovo/UNMIK	769	22,000	22,769
Bosnia & Herzegovina	22,223	186,451	208,674
Croatia	3,517	6,934	10,451
Former Yugoslav Republic of Macedonia	2,217	1,299	3,516
Albania	98		98

Source: UNHCR, May 2005

The focus of international humanitarian assistance in the region has been on the reconstruction and rehabilitation of infrastructure, housing and economic revitalization. Although significant progress has been made, 618,000 displaced people are still in need of durable solutions. This applies in particular to more than 20,000 elderly and vulnerable refugees and IDPs who continue to reside in collective centres (refer to UNHCR map on refugees and IDPs). Another group with special needs is the large number of displaced female headed households and families from Roma, Ashkaelia and Egyptian communities which endure multiple disadvantages of poverty, unemployment and social exclusion.

⁴⁵ This section draws on materials prepared for CEB/WB SEE Housing Conference 23/24 April 2003 and the report "Refugee-related Housing Issues in selected SEE Countries" by Wegelin, March 2003.

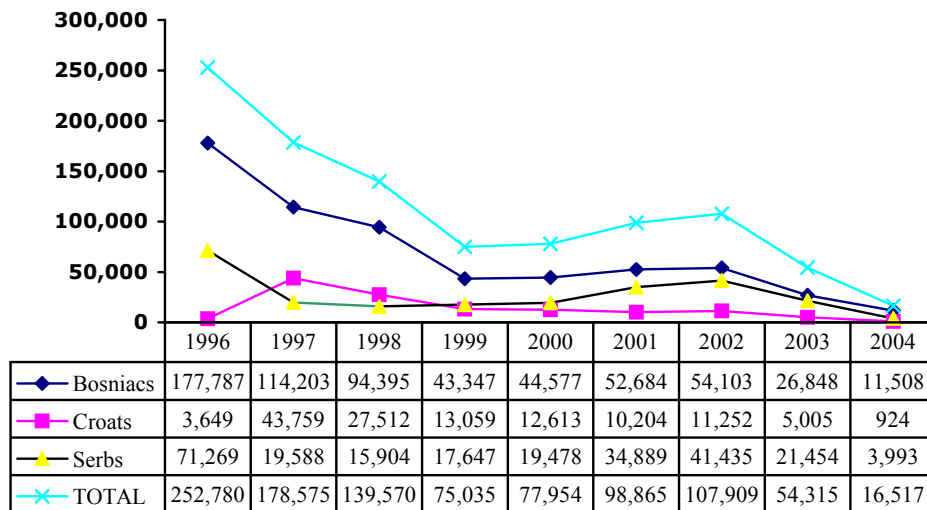
⁴⁶ According to latest official statistics (updated as of 31 August 2004), a total of 1,001,520 persons returned in/to BiH, out of which 440,147 refugees and 560,326 displaced persons. A total of 728,557 persons returned in/to the Federation of BiH; 251,581 persons to the Republic Srpska and 21,382 to Brčko District (Ministry for Human Rights and Refugees, 2004)

Figure IV-6 Please insert UNHCR map (pdf file)

The Stability Pact for South Eastern Europe has undertaken several initiatives in which housing figures prominently. The Social Cohesion Initiative emphasizes the importance of housing in the region for structural socio-economic development and regeneration. Housing development is also one of the priority areas identified in the *Agenda for Regional Action* initiated by the Stability Pact's Regional Return Initiative in June 2001. Refugee-related housing issues form a major element of the program in the three most affected countries -- Bosnia and Herzegovina, Croatia, and State Union of Serbia and Montenegro.

The last decade saw rapidly decreasing numbers of refugees and IDPs. Many found durable solutions by returning: over 120,000 returns have been recorded in Croatia, 1,001,520 in BiH, including 445,735 "minority returns". Figure IV-5 presents the results of this process in BiH.

Total Return in BiH



Source: Ministry for Human Rights and Refugees, 2004

3.2 Housing programs in Bosnia-Herzegovina

The efforts of the international community in refugee-related housing support were in accordance with the Dayton Peace Agreement Annex VII provisions. It focused on promoting and facilitating refugee and DP returns, particularly minority returns, which resulted in two major housing program areas:

Reconstruction of Returnee Housing: some 25,000 properties of returned refugees/DPs with damage of 20 percent or more have been reconstructed during 1996-2000. Of this total, about 13,600 housing units have been repaired or reconstructed through the efforts of the international community (Ministry for Human Rights and Refugees, 2004)

Property Law Implementation Program to ensure that returnees can repossess their property illegally occupied by others during the war with the assistance of a number of international agencies. According to the State Ministry for Human Rights and Refugees as of May 2005, 197,044 out of the 211,808 claims--93 percent--of the decisions approving repossession of property and occupancy rights were passed in BiH.

Given the fact that 445,000 homes in BiH have been partially or totally destroyed during the war and only 164,000 housing units have been reconstructed so far, the needs of the country far exceed its ability to address the funding gap. Table IV-4 provides an overview of the reconstruction needs in the housing sector indicating the level of damage. More than 187,000 of the damaged dwellings await reconstruction: almost half (some 44%) have devastation over 75 percent, while 16 percent have devastation level between 45 and 65 percent. Reconstruction costs are estimated at BAM2.5 billion.

Table IV-4 Comparative indicators on war damage and reconstruction in BiH

Description		TOTAL BiH
Damaged and Destroyed Housing Units (1992-1995)		445.209
Damaged and Destroyed Housing Units (after DPA)		14.010
Reconstructed Housing Units (1996-2004)		163.695
Level of Housing Stock Reconstruction*		36,77%
Number of Remaining Damaged and Destroyed Housing Units (per damage level)	Ongoing Reconstruction	3.893
	I (5%-20%)	17.963
	II (25%-40%)	24.945
	III (45%-65%)	29.355
	IV (75%-100%)	82.219
	n/a	32.791
	TOTAL	187.273
Percentage of remaining damaged and destroyed HUs in relation to total (1992-1995)		42,06%

Note: Differences between remaining destroyed housing stock and reconstructed housing stock arises due to non-registration of units repaired with resources of the owners.

Source: Ministry for Human Rights and Refugees, 2004

Recognizing that the housing reconstruction effort needed a broader support mechanism, UNHCR and OHR established the Reconstruction and Return Task Forces (RRTFs), which operate at State, Entity and Canton level. From 2001 the State and the Entities started contributing to the reconstruction effort in a major way. During 2003 government institutions of BiH have participated with 35 percent in overall investments for reconstruction of housing stock and infrastructure (BAM 216.7 million); international donors participated with 55 percent, while the rest of the sources were secured from NGO's and personal returnees investments. The *Agreements on Association and Manner of Realisation of Funds for Reconstruction of Housing Units of Returnees in 2004*, signed by BiH Ministry for Human Rights and Refugees, FBiH Ministry of Displaced Persons and Refugees, RS Ministry for Refugees and Displaced Persons and District Brčko Government, have provided BAM 35.8 million for reconstruction of some 2,000 housing units for the needs of return in 2003 and 2004. In addition, 42 municipalities were selected in which projects will be implemented

with the support of the European Commission and matching contributions from F BiH, RS and District of Brcko. Total cost 17.5 million Euro (Ministry Bulletin, 2004).

Box IV-5 Council of Europe Development Bank: Major Housing Reconstruction Projects

Bosnia & Herzegovina - The Bank recently approved a € 8 million loan which provides sustainable return support and contributes to the stabilization of the return process through the provision of reconstructed dwellings and return support to 4 500 persons in transitory situation. In **Bulgaria** the CEB has approved 2 projects for the social integration of the Roma community involving the construction of housing units and basic municipal infrastructure in Sofia and in Plovdiv. In **Croatia** the Bank has supported the return and resettlement of refugees by financing the reconstruction of around 1,200 damaged houses and basic municipal infrastructure. Some 3,400 families have benefited from this project, which was implemented in collaboration with local authorities and with support of the UNHCR. In March 2003, the CEB approved an additional € 38.6 million for the continuation of the project to accelerate the process of repossession of occupied property by the rightful owners as well as provide alternative accommodation for eligible temporary occupants.

Former Yugoslav Republic of Macedonia – CEB project under construction will provide 800 housing units for vulnerable persons. Additionally, the CEB granted € 1 million for the reconstruction of damaged housing and infrastructure. Within the framework of a large-scale public program for the construction of social housing in **Romania**, the CEB is financing a project targeted to young people and low-income families. In 2002, the Bank increased its contribution by an additional € 40.8 million for the construction of 10 000 housing units. In 2004, the Bank donated \$ 704 000 to finance the construction of houses in **Serbia and Montenegro** for refugee families originating from Bosnia & Herzegovina and Croatia. The beneficiaries are currently housed in collective centers planned for closure in 2004.

Source: Council of Europe Development Bank, 2005

3.3 Housing programs in Croatia

In Croatia, 123,020 houses and apartments either damaged or destroyed in the war have been reconstructed, for which approximately KN 13,8 billion have been spent, which with the cost of reconstruction of basic infrastructure amounts to KN 16,2 billion. Significant improvement in the dynamics and sustainability of return is the result of the measures undertaken in the course of last three and half years. By 2004, 80,156 returns have been recorded – 34,088 displaced Croats (43%) and 46,068 ethnic Serb refugees (57%) primarily from Serbia and Montenegro and Bosnia and Herzegovina (Ministry for Public Works, Reconstruction and Construction, 2004). Housing related programs in relation to refugees and IDPs fall in three categories:

Reconstruction of housing units damaged or destroyed during the war. 28,400 reconstructed housing units and supporting basic utility and social infrastructure in places of return, which enabled the return of 85,000 people. Depending on the degree of damage, the government provides cash compensation to the beneficiaries in case of minor damage and undertakes to reconstruct houses in case of major destruction.

Provision of alternative accommodation related to the repossession of refugee owned properties temporarily occupied by other families under the provisions of the Law on Temporary Take-Over and Administration of Certain Property. Most of the 19,279 housing units have been restored to

their owners by 2003. However, 3,509 properties remain occupied by temporary users awaiting alternative accommodation to enable repossession (UNCHR, 2004).

Provision of housing for returning refugees who held tenancy rights to privatized public housing. The government has recently recognized that a former tenancy right holder is eligible to restoration of title, if illegally dispossessed. However, the estimates of households for which the government has an obligation to provide alternative housing vary considerably ranging from 5-7,000 households.

In addition, *The Provision of Housing for the Homeland War Victims in the Republic of Croatia*, initiated in 1997, is implemented by the Ministry of Environmental Protection, Physical Planning and Construction in accordance with the *Law on the Rights of Croatian Homeland War Veterans and Members of Their Families*. The Program has six projects: i) Project for immediate provision of housing through purchase of dwellings; ii) Project for completion of housing construction commenced during the Homeland War; iii) Project of housing loans and grants; iv) Project for construction of housing for 100% disabled veterans; v) Projects for construction and purchase of housing units in new locations; vi) Projects for housing reconstruction under the *Law on Reconstruction*. The most complex is the project for the construction of new housing units, which since the beginning of the Program has resulted in 4.757 new dwellings. Local self-governments are obliged to provide lots with all utilities for the construction of housing units (Ministry of Environmental Protection, Physical Planning and Construction, 2005).

3.4 Housing programs in the Former Yugoslav Republic of Macedonia

The Former Yugoslav Republic of Macedonia, according to survey undertaken by the International Management Group, had 6,320 war damaged dwellings in 2001, mostly concentrated in Skopje, Lipkovo and Tetovo regions. Table IV-5 presents the total number of damaged and reconstructed dwellings in four different categories.

Table IV-5 War related damage and reconstruction of housing, 2005

Level of Damage (percent)	Damaged Dwellings	Repaired Dwellings	Other Dwellings	Arachinov o Other	Matejche Other
Category 1 (1-15%)	3497	3445	24	28	/
Category 2 (16-40%)	1411	1362	15	30	4
Category 3 (41-60%)	668	614	22	10	22
Category 4 (61-100%)	744	588	48	15	93
Total	6320	6009	109	83	119

Source: Ministry of Transport and Communications, Skopje 2005

The reconstruction took place in 2001 –2002 in two stages. The first stage, under coordination of UNHCR, offered assistance with materials for reconstruction (category I and II dwellings) as well as provision of infrastructure. The second stage covered reconstruction of dwellings in category III and IV. The governments of Germany, Netherlands, Italy, Denmark and other EU member countries donated funds through the European Commission and the European Agency for Reconstruction. The European Commission invested EUR33 million in the reconstruction of housing.

3.5 Housing programs in Serbia and Montenegro

In Serbia and Montenegro refugee and IDP-related housing issues differ from Bosnia-Herzegovina and Croatia in that there was only very limited property destroyed during the war periods (with the exception of Kosovo/UNMIK). The emphasis is on housing development required to accommodate local settlement of refugees and IDPs.⁴⁷ A sizeable proportion of the refugees in Serbia and Montenegro rely on market solutions -- the largest group in both republics (40 percent) rents private housing, while a further 28 percent in Serbia and 20 percent in Montenegro live with friends or relatives; 22 percent (illegally) own their own house or apartment in Serbia; in Montenegro this is 18 percent. The proportion of refugees and IDPs living in collective centers is 5 percent in Serbia, but as high as 12 percent in Montenegro.

Box IV-6 **Challenges for sustainable integration in Serbia**

There are great differences among municipalities in connection to the number of refugees and IDP's. For instance, in Kraljevo, which has the highest concentration of IDP's, the share of IDP's and refugees (21 000 persons) forms 17 percent of the total population. As a consequence, Kraljevo has large collective centres. Stara Pazova also has high number of refugees, about 15 percent of the population. Half of them live in rented apartments, a quarter own their accommodation and almost the same amount stay with relatives or friends.

The government of Serbia adopted in 2002 the *National Strategy for Resolving the Problems of Refugees and Internally Displaced People*. It focuses on ensuring the conditions for repatriation of refugees and IDP's and activities for providing conditions for local integration, but implementation has been constrained by the lack of funds. The strategy includes also the closure of collective centres by end of 2005. In 1996-2003 the Commissariat for Refugees and UNHCR together with other partners, such as Swiss Disaster Relief and Norwegian Refugee Council have provided resettlement assistance for more than 2 400 households. The Swiss Agency for Development and Co-operation has assisted the construction of over 2 600 housing units in Serbia. The main components have been local settlements assistance through full construction and self-help.

Source: ECE, 2005

Refugee-related housing issues in Montenegro are particularly challenging. Podgorica has about a quarter of the total population in Montenegro and some 28 percent of the refugee and DP population in the country. The city's housing shortage is acute, as illustrated by the significant numbers of housing illegally built on municipal land (about 14 -17,000 units), which house a sizeable segment of the refugee and DP population. The international community has provided 200 refugee and IDP housing units since 1996 in several locations throughout the Republic (Wegellin, 2003).

⁴⁷ More than half (62 percent) of refugees and IDPs in Serbia in the registration survey in 2001 indicated their preference for local integration in Serbia, with 5 percent indicating a preference for return and 33 percent being undecided. In Montenegro a similar situation was indicated in the surveys carried out in 1999 and 2000 (ECE, 2005).



Box IV-7

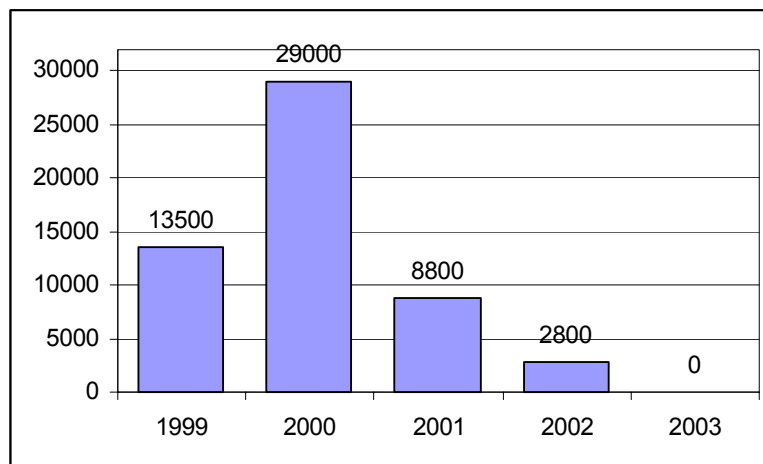
Roma camps in Podgorica

The Roma IDPs live mainly in Podgorica. There are two Roma camps: Konik Camp 1 contains about 1 400 persons (253 families), while Konik Camp 2 nearby has 340 people (61 families). Konik Camp 1, located close to the city's garbage dump, was constructed as a temporary shelter for Roma IDP's with 43 wooden barracks where 8 people live in 16 sq m housing units. This is the largest ROMA camp/settlement in Serbia and Montenegro and in the western Balkan region. The area is multicultural, housing local RAE, Montenegrins, Muslims and Serbs of which the majority are on the bottom of the social ladder.

UNHCR Sub-Office, Podgorica, January 2004.

3.6 Refugee-related housing programs in Kosovo/UNMIK

United Nations Security Council resolution created a new mandate for UNHCR – the supervision of the safe return of refugees and IDPs to Kosovo/UNMIK. While 900,000 ethnic Albanian refugees have returned to Kosovo/UNMIK since 1999, over 220,000 non-Albanian minorities are still displaced in Central Serbia. The donor assistance for reconstruction of war-damaged housing and infrastructure has peaked in 2000, as the data in Figure IV-6 indicate, and since then is being phased out. Estimates suggest that 55 percent of the housing has been rebuilt.

Figure IV-6 War reconstruction in Kosovo/UNMIK with donor assistance, 1999-2003

Source: Ministry of Environment and Spatial Planning in Kosovo, 2005

The Housing and Property Directorate (HPD) and Housing and Property Claims Commission (HPCC) are mandated by UNMIK Regulation 1999/23 and 2000/60 to provide resolution to residential property disputes arising from the conflict in Kosovo. HPD jurisdiction overrides that of the Kosovo Judiciary in the following three categories involving residential property:

- Claims by individuals who lost their occupancy rights as a result of discriminatory laws and practices after 23 March 1989 (Category A-claims);
- Claims by Individuals who entered into voluntary, but Informal transactions of residential properties between 23 March 1989 and 13 October 1999 (Category B-claims), and
- Claims by Individuals who lost physical possession of their residential properties after 24 March 1999 (Category C-claims).

HPD completed the claims registration process in July 2003 with approximately 29,000 Category A, B and C claims (the latter being close to 90% of total). It currently focuses on processing these claims and implementation of subsequent decisions. The implementation may involve voluntary settlements; physical return of properties; placing properties under the administration of HPD; investigation of the humanitarian need of accommodation for the current occupant and granting permits for temporary accommodation (HPD Report, 2004).

In addition, HPD is actively developing a rental scheme, which will enable successful claimants to place property under its administration with request to let it out. This will generate income from their property while maintaining property rights, thus providing an alternative to selling. The model investigated involves the selection of an international rental company through competitive tendering to manage the properties. The rent charged will include necessary fees covering: (i) the cost of the rental scheme; (ii) maintenance of the housing unit; (iii) public fees and taxes (utilities and property taxes); and (iv) net amount payable to the lawful owner. With a potential of 10,000 housing units and a monthly rent of EUR 100 to 200, the annual collection may be in the range of EUR 12-24 million.

Constraints for sustainable return and reconstruction in the region

Financial Available resources are insufficient: reconstruction assistance provided to returnees remains unfortunately far below the requirements; for instance, at the beginning of 2003 Ministry for Human Rights and Refugees has determined that for the needs of return, and in combination with property laws implementation, it is necessary to reconstruct some 50,000 housing units in BiH, which requires almost BAM 900 million. Both international and domestic efforts may enable the reconstruction of 15-20 percent of this estimate (UNCHR 2004). Currently, the gap between much-needed reconstruction assistance to returnees and available resources is at its highest since the Dayton agreement was signed.

Institutional Further progress still needs to be made with respect to local administrative obstruction to return. Administrative procedures generally remain cumbersome and lack of adequate information is a major impediment to a free and informed decision. National registration systems are not sufficiently coordinated. More effective institutional collaboration on a regional scale would also resolve the issues of property returns and repossession such as a regional property exchange information mechanism.

4 BRIDGING THE GAP: DEVELOPMENTS IN HOUSING FINANCE

A housing finance system is in the early stages of development in the countries of South East Europe. Governments identify the lack of housing finance as a main constraint for efficient operation of the housing market and access to affordable housing. There are different types of housing finance systems in Europe with a combination of basic models of housing finance -- contractual system, commercial bank model, mortgage bank model, and the secondary mortgage bank model. These differences in individual countries are due to historical development, tradition, institutional settings and last but not least, government regulations. It is too early to predict the development path of housing finance in the region, however, recent trends suggest a move towards private commercial lending with limited mortgage banking access to capital markets and experiments with the subsidized *bausparkasse* (contract saving model) model (Hegedus, 2001).

4.1 Overview

Banking sector reform and regulatory and supervisory policies are areas in which countries in South East Europe recently have achieved considerable progress. Consumer lending is growing, including for mortgage loans and housing-related consumer loans. The highlights of the achievements include the following:

- Collateralized mortgage lending for the purchase or renovation of housing has grown rapidly in the region; in addition, many consumer loans are being utilized for housing purposes.
- Mortgage lending is dominated by large commercial banks, often with foreign ownership, bringing international underwriting and servicing skills. Lenders are competing for consumer lending, particularly in Croatia, Bulgaria and Romania, which ultimately is of great assistance in providing more affordable housing finance.

However, there are significant constraints:

- The growth of real estate lending is limited by the legal and administrative problems, especially those plaguing foreclosure and registration. Banks have conservative underwriting criteria due to legal uncertainties and incomplete property registration systems.
- Underreported income in the region and the substantial amount of informal income, limit both the number of qualifying clients and the size of the loan.

4.2 Banking reforms

The economic crisis in South East Europe also engulfed the banking system. Currency Boards were introduced in Bulgaria and BiH in 1997 and in several countries the sector collapsed. Eighteen banks were closed in Bulgaria, amounting to about one-third of the banking sector. Half of the banks in Serbia and BiH went bankrupt due to a large number of bad loans, poor internal controls, insider lending, and inadequate risk management (Rabenhorst, 1997). In Albania, the collapse of the 1996-1997 pyramid schemes brought a general distrust in financial institutions. An estimated 33 percent of the country's total money supply remained outside the banking system. These problems

were no doubt related to macroeconomic difficulties, but also institutional weaknesses including inadequate capitalization, and poorly developed regulation and supervision.

Recent studies indicate that the banking system across the region has recovered (Butler *et al.*, 2004; Merrill *et al.*, 2003; Registra *et al.*, 2005b). Although privatization occurred more slowly than planned, much of the controlling interest in the commercial banks of Bulgaria, Croatia and Romania was sold to strategic investors. In BiH today 76.7 percent of banks' capital is foreign-owned, while in Kosovo/UNMIK the ratio is 60 percent, in Albania and Former Yugoslav Republic of Macedonia 47 percent and in Serbia 38 percent. By comparison, state ownership of capital in the region has been reduced dramatically to less than 15 percent on average. Not only is the banking system dominated by private and in a number of cases foreign ownership, it has experienced large scale restructuring and consolidation (see Table IV-6). Bulgaria has the largest rate of bank consolidation, while Croatia and Serbia still tend to have a disproportionate high ratio of banks per capita.

Table IV-6 Banks and mortgage lenders in the region, 2004

Country	Number of banks	Banks active in housing finance	Foreign owned share of total %
Albania	20	7	47
Bosnia and Herzegovina	27	4	76.7
Bulgaria	37	20	80
Croatia	45	8*	254
Former Yugoslav Republic of Macedonia	21	2	47
Romania	31	7*	80
Serbia	46	4	38
Montenegro	7	2	80
Kosovo/UNMIK	5	1	60

Notes: * Includes Housing Savings Institutions

Source: Tsenkova, 2005 Council of Europe Development Bank Regional Housing Survey

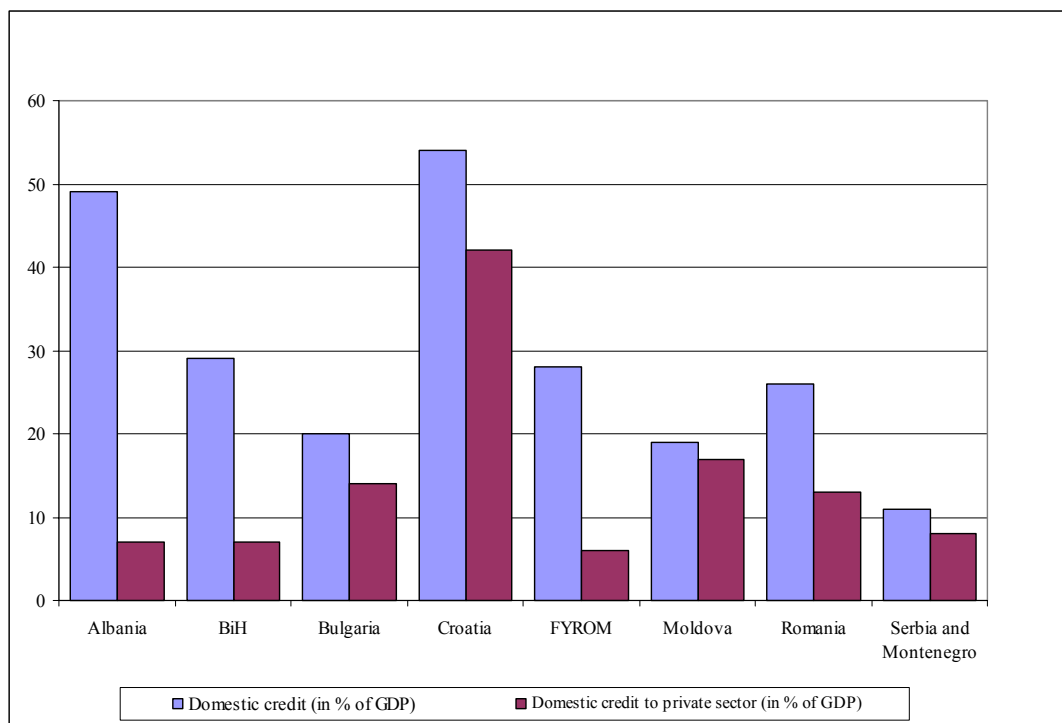
Commercial banks are licensed, regulated and supervised by the central banks.⁴⁸ The central banks use traditional supervisory tools to carry out their prudential responsibilities, including risk-based capital adequacy requirements, periodic on-site examinations, financial reporting and disclosure requirements, and off-site monitoring. Most countries also are taking actions to bring their regulations and standards into compliance with EU directives (Falcetti *et al.*, 2003).

Access to finance is a critical determinant of private sector development in all economies, as it affects both market entry and subsequent growth. After more than a decade of transition in South East Europe, the banking sector has generally been cautious in expanding its services to the private sector. The level of banking sector intermediation to the domestic economy measured by the ratio of domestic credit (both to the whole economy and to the private sector) to GDP in the region is still very low (see Figure IV- 7). For the region as a whole, the ratio of total domestic credit

⁴⁸ The Central Bank of BiH was among the first institutions to begin consolidating and centralizing operations across all entities.

to annual GDP was 27 percent (weighted average), ranging between 11.6 percent in Romania to 69.1 per cent in Croatia.⁴⁹ The private sector credit-to-GDP ratio was particularly low in some countries (less than 10 percent in Albania, BiH, Former Yugoslav Republic of Macedonia and Serbia and Montenegro).

Figure IV-7 Domestic credit as a ratio of GDP in the region, 2001



Source: Falcetti et al., 2003

4.3 The primary mortgage market

The Croatian mortgage market at present, although still far from European Union standards, is extremely more developed than any other in the Western Balkans. In fact, out of the €2.5 billion mortgage loans outstanding in the region, €2.2 billion correspond to Croatia, accounting for close to 12 percent of the country's GDP and 9.4 percent of the banking sector's total assets. The total amount of Croatian mortgages outstanding represents 20 times the amount in Bosnia and Herzegovina and over 60 times the amount in Former Yugoslav Republic of Macedonia or Serbia. Croatia not only heads the region in size of the mortgage market in absolute values, but also as a percentage of both total assets and GDP (Registra et al., 2005b).

In most of the other countries in the region, credit activity in general, and household lending in particular, seems to have increased substantially during the past two years. Reportedly, despite current low level by EU standards, the mortgage markets in Former Yugoslav Republic of

⁴⁹ While this level is higher than the intermediation in the CIS region (22.6 percent), it is much lower compared to the EU average of 108.8 percent.

Macedonia, Bulgaria and BiH are expanding at a rate of 20-40 percent annually. Banks have started to offer much more competitive financial terms—particularly longer maturities and lower interest rates—and apply less restrictive underwriting criteria. In Romania, for example, concerns over rapid private sector lending compelled the National Bank of Romania to establish a maximum payment-to-net income ratio of 35 percent for mortgage credit and to introduce a maximum loan-to-value ratio of 75 percent⁵⁰ (Merrill *et al.*, 2003; Registra *et al.*, 2005a).

However, in other countries in the region mortgage lending is in its initial stages of development, particularly in Serbia and Moldova. Former Yugoslav Republic of Macedonia has a relatively new mortgage lending system established in mid-2002. Its size is estimated to be 40 million euros, amounting to barely 1.1 percent of GDP, with an approximate 3,000 to 3,500 mortgage loans outstanding in November 2004 (Registra *et al.*, 2005a). In BiH several banks have initiated mortgage-backed (and guarantor-backed) lending for housing at 15 year maturities. This development has been stimulated by the EU supported (EUR 25 million), KfW implemented Housing Construction Loan Program of the European Fund for Bosnia-Herzegovina, which has kick-started a commercially oriented housing finance system through local banks (Butler *et al.*, 2004).

4.3.1 Mortgage lenders

Commercial Banks

The mortgage market in the region is dominated by commercial banks. Recent overview of the mortgage market in a number of countries suggests that mortgage lending is offered by a small number of institutions, often the largest commercial lenders with some degree of foreign ownership.

In Croatia the mortgage market is dominated by the biggest six banks. Zagrebacka Banka is the current leader of the mortgage market, followed closely by Privredna Banka. These two institutions account for more than 50% of the market in 2004 (more than €1100 million; 50,000 operations) (Registra *et al.*, 2005b). In BiH mortgages or housing loans are offered by the largest banks – Raiffeisen, Zagrebacka, and Hypo Alpe-Adria. Volksbank has also entered the competition but is still considerably smaller. In Former Yugoslav Republic of Macedonia the mortgage market is dominated by the country's two largest banks: Stopanska and Komercijalna, jointly accounting for 75-80% of mortgage lending. The third main player is Tutunska Bank while the Export and Credit Bank has also increased its mortgage lending activity, but its market share is less than 5 percent (Butler *et al.*, 2004; Registra *et al.*, 2005a).

The principal exception in the region is the monopoly over mortgage lending in Bulgaria by the State Savings Bank (DSK), privatization of which has experienced major delays and barriers. Historically, all mortgage lending was undertaken by DSK, which recently is losing share to over a half dozen competitors. The overall mortgage portfolio was roughly \$100 million in the fall of 2002, of which over one-half is held by the DSK. Other banks lending for housing include UBB, Post, Bulbank, BACB, First Investment Bank, Express Bank, and Raiffeisen (Merrill *et al.*, 2003).

⁵⁰ Since much of the mortgage lending in Romania is in foreign currency --U.S. dollars or euros -- the National Bank of Romania increased the mandatory reserve requirement on banks' foreign exchange liabilities from 25 percent to 30 percent.

Housing Saving Banks

While mortgage lending is clearly dominated by the largest commercial banks, Housing Saving Banks account for a very small share in Croatia and Romania.

In Romania, two non-bank mortgage finance companies--Domenia Credit and Eno Credit--are required to register and report to the National Bank of Romania (NBR). There is also a specialized housing savings bank – Raiffeisen Bank Bausparkasse Romania.

Housing Savings Banks (Bausparkasse) in Croatia account for less than 1% of mortgage lending. Their activity is strongly regulated and supervised by the Central Bank. Bausparkase generate interest income, which together with a government premium on savers' deposits results in favorable home loans funded exclusively through customer deposits. Although the minimum saving term required to qualify for building societies' home loan is two years, most of the agreements are concluded for a term exceeding five years.

Box IV-8

Declining significance of bausparkasse financing in Croatia

Housing Savings Banks have complete independence to establish the criteria to be applied in determining savers' creditworthiness. While a saver is entitled to a mortgage loan after the expiry of the saving term, the loan is not granted automatically, but is subject to the fulfillment of lending criteria (loan requirements and financial terms) that vary according to the saving term completed. Currently, housing loans are provided at a fixed interest rate—below mortgage market rates—that cannot exceed 3% of the premium of deposits. Although this financing system was quite popular when it first began in the late nineties, its attractiveness has decreased over the years, particularly since the effects of this program have been very modest and interest rates charged on mortgage loans have decreased significantly. Until now, housing saving banks have been providing relatively small volumes of housing loans (which, judging from the size of the loans and the amount needed to buy a house in Croatia at the moment, is not enough for home purchase).

Source: Registra *et al.*, 2005a.

Mortgage Insurance is a new instrument launched in Serbia. *Nacionalna korporacija za osiguranje stambenih kredita* (NKOSK) was established in 2004 to improve the situation on the mortgage market. It is a public enterprise with an implicit state guaranty. The original capital is EUR 10 million from the state budget. The supervision is provided by the Ministry of Finance, with the obligation to report annually to the government and correspondingly to Parliament. The NKOSK will insure mortgage credits given by banks up to an amount of 80 percent of the value of the real estate. The premium for the insurance will be 1 – 4.5 percent depending on loan amount, borrower, real estate and credit terms. The banks will be obliged to lower the interest rate for the credit by at least 1 percent. It seems to be problematic, that the NKOSK will be active in the financial market without supervision by the National Bank, without a license and without fulfilling the capital requirements obligatory for other market participants. In addition, this form of state support for housing appears to be poorly targeted (ECE, 2005).

4.3.2 Sources of funding

The principal sources of funds for commercial banks, and thus for mortgages, in the region are demand and time deposits and, to a much lesser extent, loans, lines of credit, and equity from parent foreign banks. In some cases, international lending institutions like the EBRD and the IFC also provide funds. Credit activity at present is mainly funded through deposits (70% of total assets). Since mortgage loans are being granted at increasingly longer terms, this situation leads to a significant assets and liabilities maturity mismatch that so far has been partially solved by international credit lines and banking loans from headquarters. The secondary mortgage market for now does not exist and the main limitations to its development are the little interest of the banking sector, the limited depth of financial markets and the lack of institutional investors.

Bulgaria is a notable exception in the region – it has introduced legislation and institutional infrastructure to mobilize long term finance. During the period July 2001 to September 2004, seven Bulgarian banks financed mortgages by issuing EUR 63 million in mortgage bonds. The bonds, denominated in either EUR or BGN, had maturities of two, three or five years, and interest rates ranging from 6.1 percent to 8.00 percent (Merrill *et al.*, 2003).

Romania is in the process of amending its laws to facilitate mortgage bonds and securitization. However, the likely investors for such bonds -- pension funds, insurance companies, and mutual funds -- are not as well positioned in Romania as they are in Bulgaria.

4.4 Mortgage lending

The *underwriting criteria* that mortgage lenders use to select the borrowers are in line with EU practices and include:

- Maximum loan-to-value (LTV) ratios and related appraisal requirements.
- Maximum payment-to-net income (PTI) ratios and related documentation.
- Borrowers' credit and employment histories and credit scores.
- Requirements for insurance and credit enhancements, including requirements for property and life insurance, mortgage insurance;
- Collateral or third-party financial guarantees.

Mortgage lending practices are becoming gradually more standardized, as a result of increasing competition in the banking sector. In theory, there are no major differences among underwriting criteria applied by lending institutions in different countries. In practice, mortgage lending in BiH and Former Yugoslav Republic of Macedonia is dominated by banks in the capital cities and lenders are much more conservative. The level of standardization in Croatia is the highest for South East Europe (Registra *et al.*, 2004 a: 2005b).

Table IV-7 Terms of mortgage lending in the region, 2004.

Underwriting criteria	Serbia	BiH	Croatia	Bulgaria	Former Yugoslav Republic of Macedonia	Albania
Amount (max) EUR	10.000	10-30,000	50-100,000	50,000*	10-12,000	10-15,000
Loan-to-Value (LTV)	70 % - 100 %	50%	70 % - 85 %	70-80%	50%	50-70%
Monthly salary to pay the loan (PTI)	Up to 50 %	Up to 50%	33%	33%	33%	33-40%
Interest rate (%)	8.5 – 10.5 floating	9 – 11%	6.75-8%	9-12%	8.7-10%	11.5-14%**
Maturity	Up to 20 years	10-15 years	15-25 years	15-20 years	10-15 years	5-20 years
Guarantors	0 – 2	2-3	Up to 3	2	3	up to 2
Property insurance	Yes	Yes	Yes	Yes	Yes	Yes
Life insurance	No	No	Yes	No	No	No
Currency clause	Yes	Yes	Yes	Yes	Yes	Yes
Registration of the real estate	Not in all banks	Yes	Yes	Yes	Yes	Yes
Admin. Fees	up to 2 % of loan amount	up to 2 % of loan amount	1-2 % of loan	-	up to 2 % of loan amount	-
Collateral	First ranking mortgage	Yes	Yes	Yes	Yes	Yes

Notes: *In Bulgaria, Croatia and Romania loans are denominated in the local currency with interest rates indexed to foreign currency.

**Loans in foreign currency min LIBOR + 4%-9%.

Source: Serbia, BiH, Former Yugoslav Republic of Macedonia - Interview data, November 2004 and March 2005; Bulgaria and Romania – Merrill et al, 2003; Croatia – Registra et al., 2005b.

Table IV-7 presents the terms of mortgage lending in a comparative perspective using 2004 data. In Croatia the maximum loan size generally offered by banks may be as high as €100,000, although, on average, loans granted do not exceed €50,000. In the other countries this varies with Former Yugoslav Republic of Macedonia and Serbia usually lending short term with a maximum amount of €10-12,000. In Moldova, mortgage lending is very limited; reportedly housing loans are used for business purposes.

Banks offer maturities that range from 10 to 25 years, frequently within the 15- 20 years range. Lending interest rates offered by banks vary widely, ranging from a low of 5,5 percent to a high of 9.5 percent depending on the prime rate in each country and a number of factors such as (i) the currency of denomination (ii) the client's credit risk profile, (iii) the personal relationship between the bank and the customer, (iv) the number of guarantors and (v) the down payment made. Interestingly, in Bulgaria loan terms vary according to construction type and building materials, the rationale being that these factors have a major impact on the expected life of the building. Thus, for example, loan terms for panel construction are less liberal than for brick (Merrill et al., 2003; Bothwell and Merrill, 2005). Bank competition in Bulgaria has led to product innovation. Recently banks have introduced 'bridge financing' to allow the purchase of new dwelling for clients still waiting to sell their existing home and secondary mortgages for renovation. The State Savings bank offers credits without review of labour/income contracts with interest rate of 13% for 15 years (Dimitrov, 2004).

Meanwhile the banks in BiH and Serbia have generally adopted an over-collateralization approach to lending, and focus their marketing on upper income groups and favored corporate customers. Mortgage loans are offered only to clients with multiple guarantors and often require other collateral as well, including compensating balances, bills of exchange, and other real estate. Employment must generally be in the formal sector, and in some cases, employment at bank-financed corporations. Loan-to-value (LTV) ratios generally range from 50 to 70 percent, terms from 10 to 15 years, and interest rates are currently around 10 to 12 percent (Butler *et al.*, 2004; Merrill *et al.*, 2004).

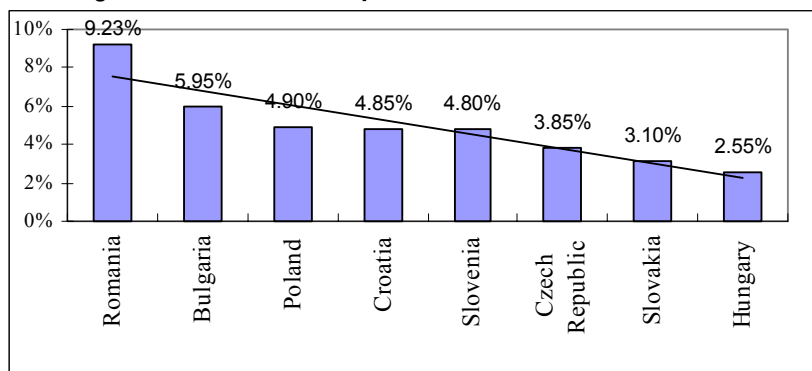
In most cases payment installments (PTI) cannot exceed 33% of household (regular and formal) income. Regular income and employment stability is compulsory. In cases where informal income represents a high amount of total income, lenders usually require collateral for the mortgage as well as 1 to 3 guarantors. Guarantors must meet the same eligibility criteria as the borrower to counteract instability in income and employment. However, given that there is no central registry of guarantors in any of the countries, it is impossible to verify whether or not one individual is acting as a guarantor for multiple loans.

Life insurance is not always compulsory but property insurance usually is. Insurance costs, however, are low and do not seem to represent a significant extra cost for the borrower. There are nearly always additional up-front fees pushing costs higher. The banks have devised numerous schemes for “risk-based” pricing, varying the interest rate with the size of the loan and the size of the compensating balance. Upfront fees, usually in the range of 1-3 percent vary according to loan size or whether the borrower is a bank customer.

2.5 Constraints for mortgage lending

Interest rate spread. Annual inflation in South East Europe has declined steadily in the last few years, leading to more manageable interest rates. However, the interest rate spread between loans and deposits in local and foreign currency is still considerably high.

Figure IV- 8 Interest spread in transition countries, 2004



Source: Registra *et al.*, 2005b.

The available data presented in Figure IV-8 indicate that the interest rate spread in the region is two to three times higher compared to the average in Hungary and Slovakia. There are several reasons – both systemic and non-systemic- to explain the current high spreads. Banks have less experience with credit risk assessment than banks in the more advanced reformers in Central

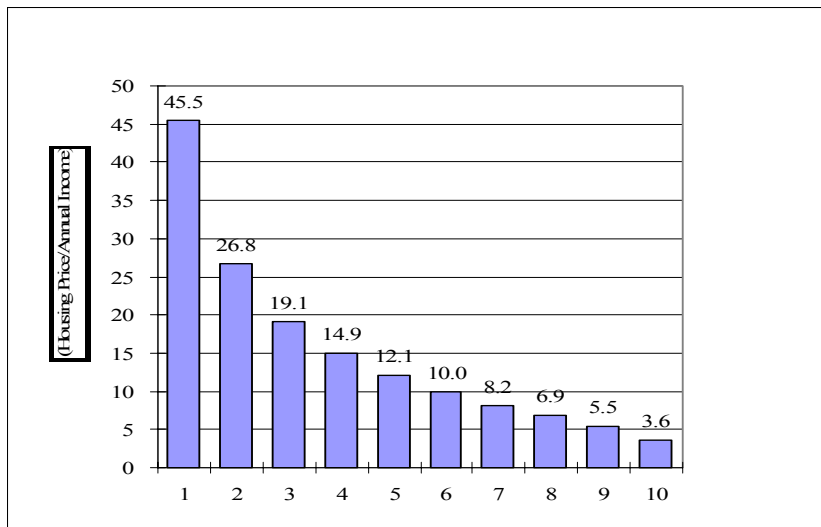
Europe; there are still numerous gaps in the primary mortgage market -- uncertainty of borrower's income, high credit risk profiles, registry and foreclosure inefficiencies.

Conservative approach to lending. The experience in developing mortgage finance systems in transition and emerging markets indicates that banks remain very risk averse and tend to adopt an over-collateralized approach to lending. These may include multiple guarantors, low LTV ratio and other collateral. In addition, although foreclosure might be legally possible, social and cultural barriers make lenders less reluctant to enforce it, so there has been a very limited experience with foreclosures in the region (Merrill *et al*, 2003; Registra *et al.*, 2004b).

Affordability constraints. As a result of high interest rates and interest rate spreads, but also perceived risks in mortgage lending, banks have focused their marketing on the upper income groups and favored corporate customers. Households with ability to borrow and repay their mortgage tend to be in the higher income quintile.

A recent assessment of mortgage markets in Croatia, Serbia and Former Yugoslav Republic of Macedonia concluded that average price-to-value ratios tend to be high compared to the ones in mature and well established housing markets – close to 12 in Former Yugoslav Republic of Macedonia and Croatia and 16 in Serbia (Registra *et al.*, 2004b; 2005b). While these estimates are no doubt very crude given the lack of systematic data on income and prices of housing, they suggest that in the case of Croatia less than 10 percent of the households can qualify for a mortgage. Data are presented in Figure IV-9 with an indication of average values for price-to-income ratios in each income decile. Households are grouped from the poorest to the richest income deciles. At the bottom of the income spectrum price-to-value ratio is as high as 45. What is particularly interesting is that given the more competitive mortgage terms with similar price-to-income ratio, up to 14 percent of Croatian households might be able to borrow, while in Former Yugoslav Republic of Macedonia this share is 3 percent.⁵¹

Figure IV-9 Price-to-income ratios in Croatia, 2004



Note: Households are grouped from the poorest to the richest income deciles.

Source: Registra *et al.*, 2005b.

⁵¹ Under the most advantageous conditions offered by Croatian banks -- 80% LTV, 25 year maturity and 6.5% interest rate, PTI 33% -- 14-16% of the households can qualify. In the case of a renovation loan -- 20% LTV, 5 year maturity, 8.5% interest rate, PTI 33% -- close to one third of the households can qualify.

Lack of construction lending. Many banks do not engage in construction lending due to uncertainty about titling and ownership of unbuilt land. This is a significant constraint for new housing construction, particularly in the case of multi-apartment housing.

Lack of mortgage support institutions. Primary market support functions are especially important in emerging market mortgage lending: having an effective legal infrastructure, including foreclosure and repossession; an appraisal process based on international standards; credit information bureaus; and mortgage-related insurance products (Bothwell and Merrill, 2005). The development of effective appraisal methodology in the emerging housing markets of South East Europe faces numerous challenges. For example, broad-based databases generally do not exist, making it difficult to utilize a comparable appraisal methodology. Also, actual sales prices are often not recorded in order to reduce sales taxes. Most of the countries lack professionally licensed real estate agents and property appraisers. Credit bureaus are established in BiH and Kosovo/UNMIK and are under consideration in Bulgaria and Romania.

V Conclusion: Progress in Housing the Nations of Homeowners in South East Europe

1 INTRODUCTION

South East Europe is home to 57.8 million people living in more than 20 million dwellings. It includes eight countries with very different size, population, resources and stages of economic and social development. Perhaps the common feature in housing terms is the high degree of private ownership effectively establishing 'nations of homeowners' in South East Europe. Despite its overall diversity, the region is often perceived to be homogenous due to the ideology of socialist ruling regimes regardless of the historical and cultural differences between countries. The former socialist countries were for several decades governed by distinctly different ideological principles with extensive state control over property rights and the provision and allocation of housing. Political changes in the early 1990s (re)introduced markets, parliamentary democracy and important institutional reforms, thus changing dramatically the housing policy scene. Although countries in the region have a common legacy, there were significant differences in the way the socialist model was implemented as well as in the housing conditions of these nations. Housing systems are 'path dependent', which influences the newly established housing markets during the transition in different national contexts. These initial differences in return are multiplied by the choice of housing policy instruments and the type of intervention selected by governments during the transition.

This study is driven by the premise that housing policy matters and that better policies lead to more efficient performance of housing systems. The conceptual framework for the comparative analysis defined three distinct policy arenas, each governing policy outcomes, instruments and types of intervention. The analysis reviewed developments in three major policy areas affecting the housing systems -- fiscal, financial and real estate policies. Given the diversity of policy responses across the region, the focus was on policy outcomes and progress towards the achievements of:

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

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

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

The following sections summarize key findings from the comparative evaluation.

2 EVALUATION OF HOUSING POLICY REFORMS

2.1 The second phase of housing reforms

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

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

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

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

2.2 Progress in developing effective legal and institutional framework

Perhaps the hallmark difference between housing systems in socialist and market economies is the role the public sector plays in ownership and control of housing assets. A transition to a market

based system implies a higher degree of private ownership over housing, no restrictions on market exchange and less state (public sector) involvement in the provision of housing services. The analysis also looked at the degree of competition in the supply of new housing and the provision of land, as well as the development of market-based structures to operate and maintain the existing stock and deal with property rights registration.



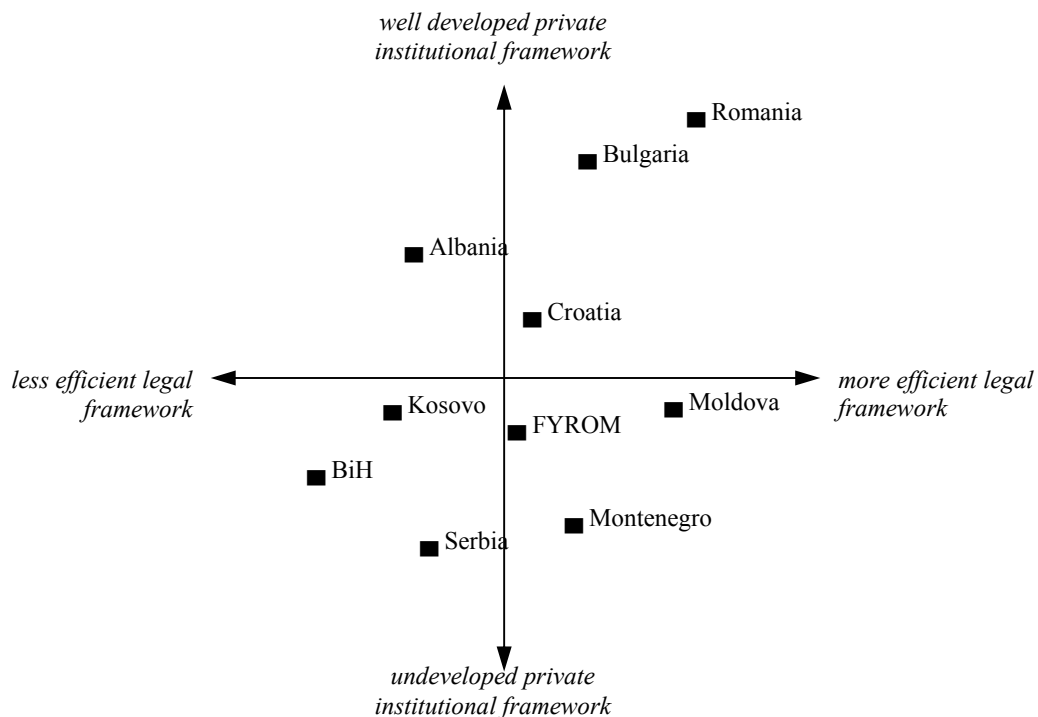
Illegal housing on the outskirts of Pristina

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

process. In addition, massive illegal construction, especially on the periphery of urban settlements, testifies to a failure to develop a coherent and comprehensive urban planning and zoning policy.

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

Figure V-1 Summary evaluation of progress in legal and institutional reforms



been liberalized (Bulgaria, Croatia, FYROM), private firms have emerged, although they do not seem to be professionally licensed. Market intermediaries—real estate agents, property appraisers, notaries—exist in Bulgaria and Romania, but in the other countries have not been professionally established.

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

2.3 Progress in developing transparent and targeted fiscal policies

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

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

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

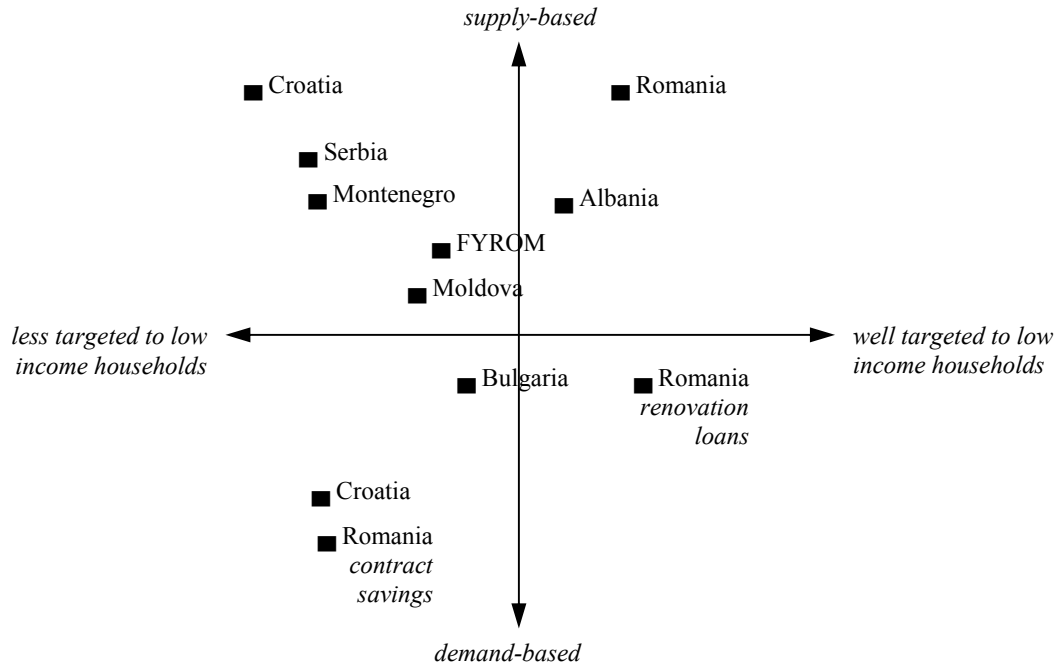
Support for the public rental sector is limited to a handful of countries in the region. Romania, and more recently Former Yugoslav Republic of Macedonia have initiated programs for new construction of social rental housing. Similar pilot projects with a credit from Council of Europe Development Bank are under preparation in BiH and Serbia. Housing assistance to low income households is provided in Romania and to a limited extent in Moldova and Bulgaria (energy

allowance). The subsidy mix also includes some rent control in denationalized housing in Croatia, Albania and Bulgaria with no targeting with respect to income.

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

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

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

Figure V-2 Subsidies to support homeownership in the region

2.4 Progress in establishing a well functioning system of housing finance

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

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

The Croatian mortgage market at present, although still far from EU standards, is extremely more developed than any other in the region. The total amount of outstanding mortgages represents 12 percent of GDP and is 20 times the amount in BiH and over 60 times the amount in FYROM or

Serbia. However, the growth of real estate lending is limited by the legal and administrative problems, especially those plaguing foreclosure and registration (BiH, Croatia, Serbia, and Former Yugoslav Republic of Macedonia). Banks have conservative underwriting criteria, often requiring two to three guarantors and collateral, due to legal uncertainties and incomplete property registration systems. Banks are inherently suspicious of private developers and there is no lending for new housing construction (in Serbia, FYROM, and Montenegro due to state ownership over construction land).

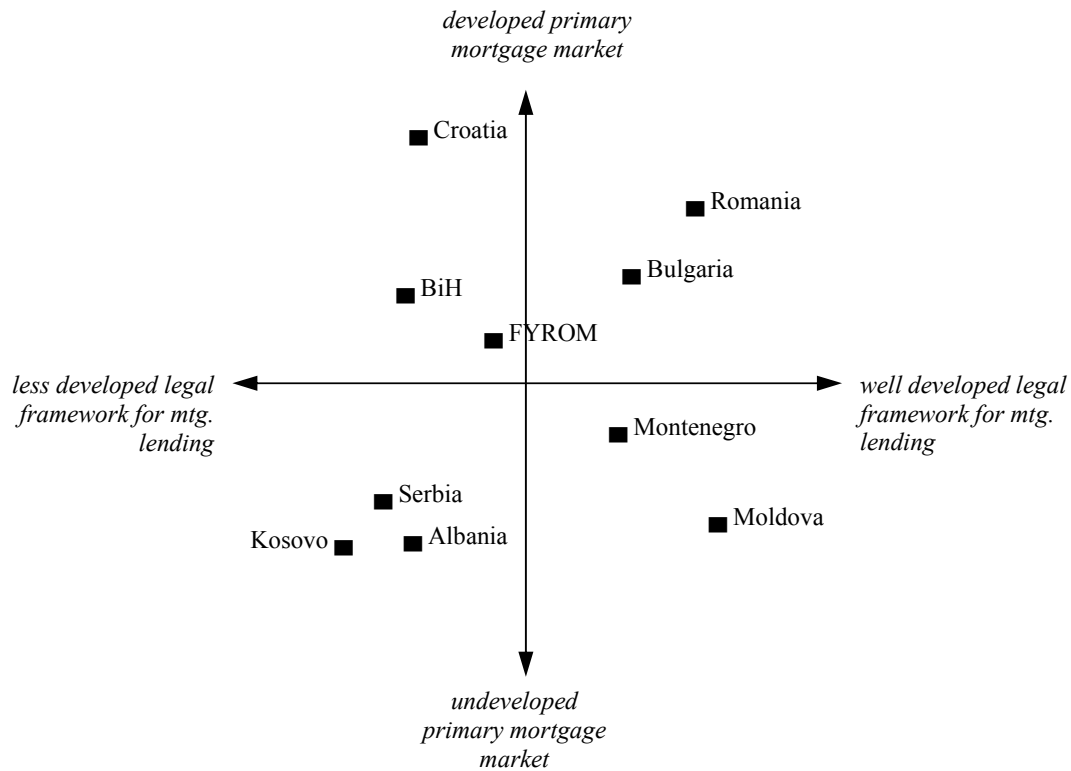


Figure V-3 Development of primary mortgage market and legal framework

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

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

3 EVALUATION OF HOUSING SYSTEM PERFORMANCE

3.1 Distributional efficiency

The analysis looked at the degree to which the actual national housing stock matches the household demand. Is the stock in the right place, or are there cities or regions where housing shortages, or even homelessness, exist in the face of an overall national surplus? Is the housing supply appropriate in terms its distribution in accordance with family characteristics? Is housing used efficiently or there are high vacancy levels?

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

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

3.2 Improvement of housing quality



Standard housing in the historical district of Skopje

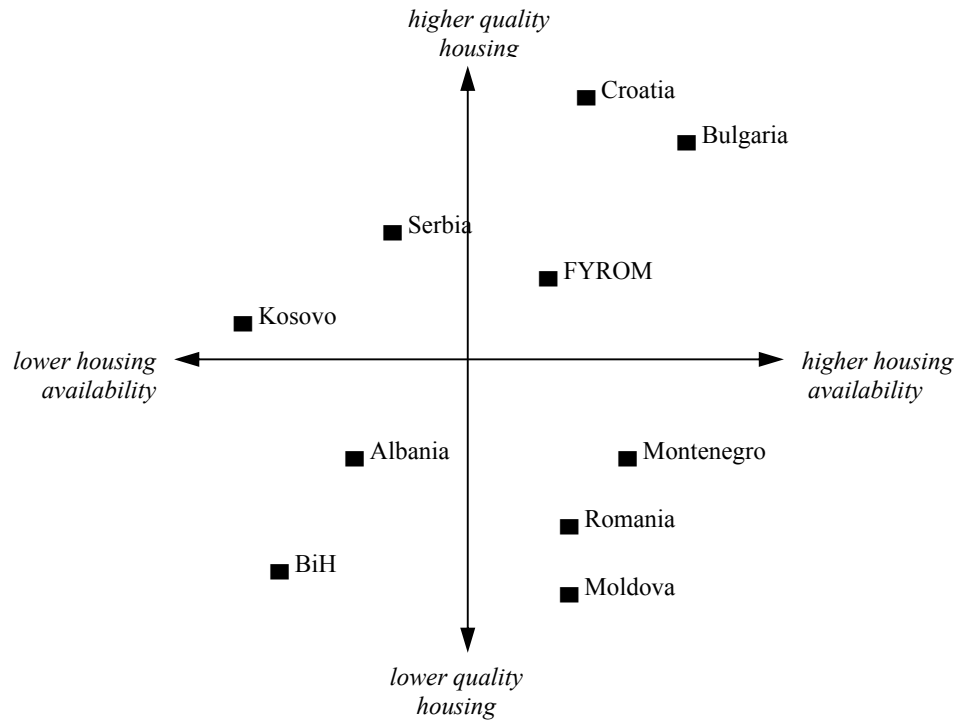
In South East Europe quality problems of the existing housing stock have attracted significant public attention. The available data indicate overall housing improvement in the region since 1990s. However, cumulative shortages of financing for infrastructure development in rural areas during communism,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

technical infrastructure has led to deterioration of existing networks and frequent disruption of services. *Indeed, the question of housing quality in South East Europe is directly related to improvement of access to safe drinking water and sanitation.*

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

Housing quality in war affected countries has deteriorated substantially. In BiH these challenges are particularly significant. Some 445,000 homes in the country have been partially or totally destroyed, which is more than a 37 percent of pre-war housing stock. In Kosovo/UNMIK, 30 percent of the housing stock was damaged and in some cases whole villages were totally destroyed. According to the Ministry of Public Construction in Croatia the damaged and demolished housing stock is over 200.000 dwelling units, or close to 13 percent of the total for the country.

Figure V-4 *Housing availability vs. access to modern water and sewer services*



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

3.3 Stability of housing investment and production

From a quantitative perspective, the level of new housing construction has reached low levels with rates of new dwellings per 1000 around half of the level in the 1990's. The decline in Bulgaria, Moldova and Serbia was much more pronounced due to the rapid withdrawal of state support for housing and economic difficulties. Despite the general picture of profound recession observed till the mid-1990s, a rather heterogeneous situation has emerged. Rates of housing production are relatively stable across the region with Former Yugoslav Republic of Macedonia and Croatia

maintaining a level close to 2 units per 1000 residents, while in the other countries this is less than 1/1000. Most of the new housing (over 80 percent) is produced by private developers with a significant share of single family housing built mostly in the form of self-help.

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

Notwithstanding progress, housing production capacity in the region remains limited because:

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

3.4 Affordability and choice

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

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

Affordability in owner-occupied housing. In most countries, as a result of mass privatisation, the size of the owner occupied sector has increased substantially mostly through transfer to sitting tenants (free of charge, through vouchers or nominal fee). While these populist policies have been equally attractive across the region, governments have been reluctant to introduce market-based

property taxes and other fiscal mechanisms to leverage private investment in the maintenance of these housing assets. Despite the economic and social hardships, most households in South East Europe have mortgage free housing. In some buoyant markets this translates into substantial wealth 10-12 times the average annual household income. The analysis revealed that housing costs in selected countries in the region show a distorted pattern. First, housing costs consume less than 8 percent of the household budget (Moldova is a notable exception), which is much lower than the EU average. Second, expenditure on utilities is much higher than spending on maintenance and other housing related costs with a significant imbalance in Serbia and FYROM. The consequences are no doubt further deterioration in the quality and standard of housing.



Apartments in the pedestrian zone of Skopje are in high demand

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

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

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

Figure V-5 *Housing investment vs. tenure choice*

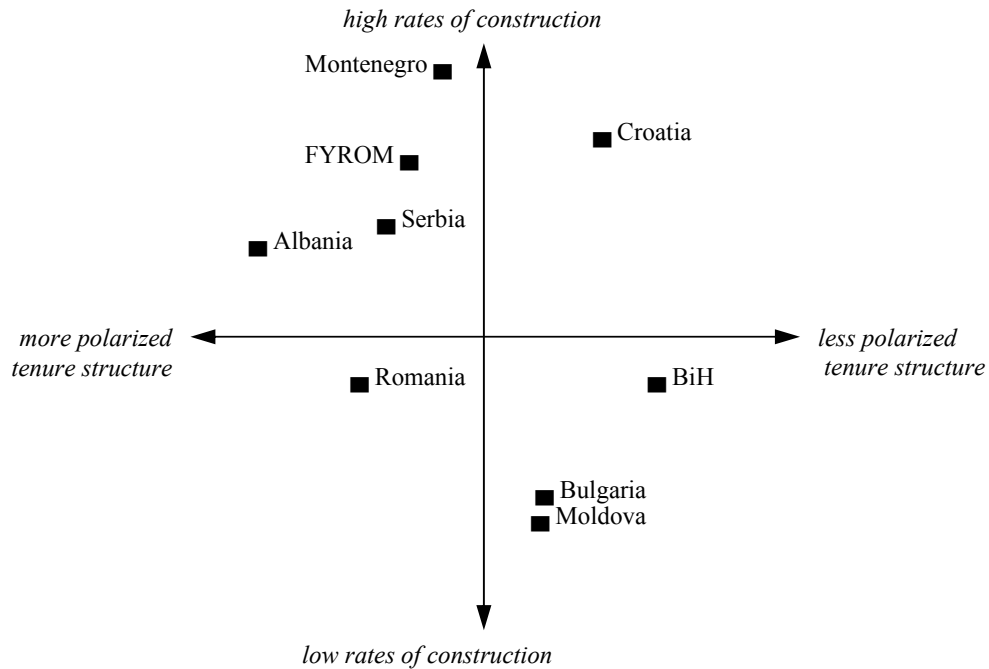


Figure V-5 presents the comparative position of the countries under review using two proxies for stability of housing investment and tenure choice. Using data on rates of new construction per 1,000 and level of homeownership, the figure stylistically presents the opportunity for housing choice for new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

4 CONCLUDING COMMENTS: THE UNFINISHED AGENDA

Housing represents a vast potential source of economic growth for the countries in South East Europe. With the quality and quantity backlogs in the sector, large amounts of investments for the years to come would be necessary to improve the housing conditions. Indeed, housing quality is

very much related to improved access to safe drinking water and sewer, particularly in rural communities. The importance of housing in the national economy can be measured in terms of investment, employment, consumer expenditure, etc. The value of services derived from housing amounts to 15-20 percent of domestic consumer expenditures and forms a large component of national household wealth. Housing privatization applied in almost universal manner across the region has transferred significant national assets in private ownership. While this has boosted private investment in the sector, multi-apartment housing in urban areas has deteriorated due to lack of effective legal, organizational and financial measures for its management.

Housing supply is important in the economy since it can be used as a regulatory tool by governments to counteract the cyclical nature of housing investment. Housing supply also generates a series of multiplier effects. It requires considerable investment in the provision of infrastructure and neighborhood services. The maintenance and renewal of housing generates long-term operating costs and requirements for the down stream producers of materials and services. *These important secondary impacts need to be considered together with investment in new housing construction and existing housing as a major engine of growth in South East Europe.*

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

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

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

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

priority in the region. In the area of real estate policies to encourage competitive provision of housing services, further action needs to address legal changes ensuring the effective management of privatized multifamily housing, as well as procedures to finance maintenance and renovation, particularly to improve energy efficiency of existing housing.

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ANNEX 1: HOUSING POLICY SURVEY



Regional Study on Trends and Progress in Housing Reforms

Albania, Bulgaria, Bosnia and Herzegovina, Croatia, Former Yugoslav Republic of Macedonia, Romania, Republic of Moldova, Serbia and Montenegro

I. OBJECTIVES OF THE SURVEY

The Council of Europe in partnership with the United Nations Economic Commission for Europe and the Council of Europe Development Bank is working on a *Regional Study of Trends and Progress in Housing Reforms* that will assess housing policy and market performance in eight countries in South Eastern Europe (SEE). *The study* is intended to address major policy challenges and to provide recommendation for the development of appropriate regulatory, fiscal and financial instruments to enable the operation of housing markets and access to affordable housing. As such, the assessment can be instrumental in establishing a more efficient and equitable housing policy in the region.

The objective of the survey is to identify housing policy priorities and challenges that need to be addressed in the *Regional Study*. This brief questionnaire is designed to elicit responses on these issues from experts participating in the SEE Housing Network Meeting in Strasbourg, 6-7 December 2004.

Please take a few minutes to complete the questionnaire. Your input is important and your cooperation is highly appreciated.

Please state your name, position, institutional affiliation

.....

Country

Thank you very much for your collaboration.

II. EVALUATION OF HOUSING POLICY PRIORITIES

In your opinion, which of the following are major housing policy priorities in your country? *Please rank in order of priority: 1-being the most important, 3-being the least important (N-no opinion).*

1	Regulatory reforms	1	2	3	N
1.1	Legal framework for owner-occupied housing				
1.2	Legal framework for social rental housing				
1.3	Legal framework for mortgage lending and foreclosure				
1.4	Other (please specify)				
2	Fiscal reforms (subsidies, tax incentives)	1	2	3	N
2.1	Subsidies for the provision of social housing				
2.2	Subsidies to low income households				
2.3	Subsidies to specific groups for purchase of housing				
2.4	Subsidies for investment in housing renovation				
2.5	Other (please specify)				
3	Financial reforms	1	2	3	N
3.1	Development of competitive mortgage products for the purchase of housing				
3.2	Development of competitive products for financing of renovation				
3.3	Other (please specify)				
4	Institutional reforms	1	2	3	N
4.1	Training and capacity building of municipal housing experts				
4.2	Training and capacity building of homeowners' associations				
4.3	Training and capacity building of mortgage brokers, appraisers				
4.4	Training of non-profit housing institutions providing social housing services				

III. EVALUATION OF MAJOR CHALLENGES IN THE HOUSING SECTOR

The list below highlights common housing problems across the region identified in comparative studies of the SEE Housing Network. In your opinion, which are the major challenges in the housing sector in your country? *Please rank in the order of priority: 1-being the most important, 3-being the least important (N-no opinion).*

	Major challenges	1	2	3	N
1	Shortage of affordable social rental housing				
2	Shortage of affordable owner-occupied housing				
3	Maintenance and management of private multifamily housing				
4	Maintenance and management of social housing				
5	Low levels of new housing construction				
6	Lack of serviced land for new housing				
7	Lack of affordable housing finance				
8	Lack of housing for refugees and displaced people				
9	Poor quality of existing housing				
10	Other (please specify)				

IV. EVALUATION OF PROGRESS IN HOUSING REFORMS

In your opinion, which of the following are major housing policy priorities in your country? *Please rank in order of priority: 1-being the most important, 3-being the least important (N-no opinion).*

Please state your expert opinion.

1	Progress in development of regulatory frameworks	1	2	3	N
1.1	Legal framework for owner-occupied housing				
1.2	Legal framework for social rental housing				
1.3	Legal framework for mortgage lending and foreclosure				
1.4	Other (please specify)				
2	Progress in implementation of fiscal reforms (subsidies, tax incentives)	1	2	3	N
2.1	Subsidies for the provision of social housing				
2.2	Subsidies to low income households				
2.3	Subsidies to specific groups for purchase of housing				
2.4	Subsidies for investment in housing renovation				
2.5	Other (please specify)				
3	Progress in implementation of financial reforms	1	2	3	N
3.1	Development of competitive mortgage products for the purchase of housing				
3.2	Development of competitive products for financing of renovation				
3.3	Other (please specify)				
4	Progress in implementation of institutional reforms	1	2	3	N
4.1	Training and capacity building of municipal housing experts				
4.2	Training and capacity building of homeowners' associations				
4.3	Training and capacity building of mortgage brokers, appraisers				
4.4	Training of non-profit housing institutions providing social housing services				

V. CLOSING COMMENTS

Finally, do you have any comments or suggestions regarding the content of the *Regional Study*?

We would be very grateful if you enclose recent reports, studies, and any information pertinent to the evaluation of housing reforms in your country.

Please forward the completed questionnaire to:

Ms Patricia Nicli, Council of Europe

Patricia.nicli@coe.int

Fax +33 (0) 388 41 27 18

ANNEX 2: HOUSING POLICY AND HOUSING MARKET INDICATORS SURVEY

Regional Study on Trends and Progress in Housing Reforms

Albania, Bulgaria, Bosnia and Herzegovina, Croatia, Former Yugoslav Republic of Macedonia, Romania, Republic of Moldova, Serbia and Montenegro

Commissioned by Council of Europe Development Bank

The Council of Europe Development Bank, in partnership with Council of Europe and the United Nations Economic Commission for Europe, is reviewing progress in housing reforms in eight countries in South East Europe (SEE). The study will incorporate key housing statistics of the countries under review based on a set of indicators approved at Council of Europe SEE Housing Network Meeting in Zagreb, 6-7 November 2003.

The data request is organized in five thematic blocks:

- General demographic data
- Quality of the housing stock
- New housing construction and investment
- Affordability of housing
- Housing markets.

In most of the cases the data refer to last/previous census with a particular emphasis on differences between the national average and indicators relevant to urban areas.

Key Housing Indicators, 1995-2001

GENERAL DATA	
1.1	Population growth (%), 1990-2000
1.2	Land area, population and population density (latest year available)
1.3	Population forecast growth/decline & urban/rural (*1000)
1.4	Population by major age groups (% of total), latest year available
1.6	Private households (*1000)
1.7	Average household size (last census)
1.8	Distribution by household characteristics (%) latest year available
1.9	Migration (*1000) and immigration of total population
1.10	Refugees and displaced people (*1000) 1995-2003.....
1.11	Unemployment rates (% of labour force) 1995-2003
1.12	Gross Domestic Product per capita (*US\$) 1995-2003
1.13	Gross investment in housing (in US\$ and as % of gross capital formation) ..
1.14	Investment in new housing construction (1995-2003)
QUALITY OF THE HOUSING STOCK	
2.1	Average useful floor area per dwelling (m ²)

2.2	Average number of rooms per dwelling and per new dwelling
2.3	Bath/shower and central heating in dwelling stock (% of total stock).....
2.4	Age of dwelling stock: <1919; 1920-1945; 1946-1970; 1971-1989; 1990-2003
	QUALITY OF THE HOUSING STOCK IN URBAN AREAS
2.5	Average useful floor area per dwelling (m ²).....
2.6	Average number of rooms per dwelling and per new dwelling
2.7	Bath/shower and central heating in dwelling stock (% of total stock).....
	AVAILABILITY OF DWELLINGS AND TENURE (last and previous census)
3.1	Dwellings per 1000 inhabitants
3.2	Vacant and substandard dwellings (% of total dwelling stock)
3.3	One-family dwellings in total dwelling stock (%), latest year available.....
3.3A	Multifamily dwellings in total dwelling stock (%), latest year available
3.4	Dwelling stock by tenure: rental, owner occupied, other (% of total stock)....
3.5	Social rental dwellings as % of total housing stock
	AVAILABILITY OF DWELLINGS AND TENURE IN URBAN AREAS (last & pr. census)
3.6	Dwellings per 1000 inhabitants
3.7	Multifamily dwellings in total dwelling stock (%), latest year available
3.8	Dwelling stock by tenure: rental, owner occupied, other (% of total stock)....
	NEW CONSTRUCTION.....
4.1	Dwellings newly completed per 1000 inhabitants (1990 and 2002).....
4.2	Dwellings newly completed (*1000) 1995-2003.....
4.3	Share of new dwellings developed by the private sector (% total) 1995-2003
4.4	Newly completed one-family houses (% of all newly completed dwellings)...
	AFFORDABILITY OF HOUSING
5.1	Consumer price indices (1995 = 100) 1995-2003.....
5.2	Average housing expenditure (% of total expenditure) 1995 & 2002.....
5.3	Average housing expenditure on utilities (% of total expenditure) 1995&2002
5.4	Rents in social rental dwellings (2002)
5.5	Rents in private rental dwellings (2002, capital cities)
5.6	Price per sq m in secondary markets (2002,2004 capital cities/3 submarkets)
5.7	Prices per sq m of newly completed dwellings (2002, 2004 in capital cities).
5.8	Construction costs of newly completed dwellings (2002)
5.9	Interest rate for mortgages (%) 1995-2002.....
5.10.	Outstanding residential mortgage debt (as % of GDP).....
5.11	Housing subsidies as a share of GDP (%)