

Social housing in the context of the rental sector in Visegrad countries



Habitat for Humanity Hungary

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Dear Reader,

The booklet you're now reading was produced for the conference "Emerging private rental sector in accession and transition countries: Is there an option for social rental agencies?" hosted by Metropolitan Research Institute and Habitat for Humanity Hungary. The obvious and crucial link between any systemic improvement to the housing of low-income and vulnerable households and housing policy has prompted Habitat for Humanity to explore the field of housing policy in an increasing number of countries where we work. Habitat for Humanity Hungary is proud to be one of the first country programs within the Habitat family where advocacy for fairer and more inclusive housing policies has become a strategic focus.

Our vision for Hungary is that of a country where the right to a decent home and the benefits of a decent home are available to everyone, and where diverse stakeholders ranging from civil society through academia and business to all levels of government are engaged in a constant and fruitful dialogue to ensure this. We believe that such conversations need to be based on a critical and reliable appraisal of the local context as well as an understanding of housing policy options. Academia and housing experts have a very important contribution to make to this dialogue.

The questions we had been discussing in the three days are central to making housing available for all in need. We had opportunities to learn about housing policies in various countries of the CEE region, about the missing link between housing policies and socially excluded groups, and ways to create this link, as well as a concept that is very important to Habitat for Humanity Hungary: the concept of Social Rental Agencies. Our friends at Metropolitan Research Institute and we think this housing policy tool could enable Hungary to leverage its substantial empty housing stock to provide decent housing to many low-income households. The feasibility of Social Rental Agencies and possible ways to introduce them in Hungary is also the subject of a joint project of Metropolitan Research Institute and Habitat for Humanity Hungary which is made possible by generous support from Open Society Institute and Open Society Foundation.

We are grateful to the Visegrad Fund for providing funding for research into Social Rental Agencies in the V4 countries and for being a sponsor of the conference, thus creating a forum to discuss this potent housing policy tool with colleagues from various backgrounds. We would like to thank our partners in this project for their contributions: Habitat for Humanity Poland, Institute of Sociology of the Academy of Sciences of the Czech Republic, Roma Institute, Slovakia. Special thanks to the experts of Metropolitan Research Institute, who guided us along the project, and give they invaluable professional support to foster social rental agencies in Hungary.

András Szekér
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I. Development of social housing in Visegrad4 countries - options for social rental agencies

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I. 1 Introduction

In the past two and a half decades, the Visegrad (V4) countries went through a radical social and economic transformation, moving from centrally planned economies towards market economies. Some of the common elements of the major social and economic changes were the increasing income inequalities and the dissolution of the socialist housing model (so called East-European Housing Model, Hegedüs-Tosics, 1996). As it was exhaustively demonstrated in a recent volume on social housing ('Social Housing in Transition Countries', Hegedüs-Lux-Teller, 2013) no new social housing policy has been developed to manage the increasing affordability problem on the housing market, though there have been several attempts to improve the social housing systems in V4 countries. The comparative project, supported by the Visegrad Fund, will show the different attempts to address the social housing needs in the countries, after summarizing the common elements in the transformation of the housing systems in the four countries. It will also discuss the possibility of moving towards a more efficient model (Social Housing Agencies - SRAs), which can reform the institutional structure of the existing social housing sector. The basic concept of SRAs (similarly to the various models in developed countries) is to use the privately owned, but not inhabited private housing stock for social housing purposes, offering a financial and institutional solution that can serve as a model for future social housing programs. The comparative paper is based on four case studies and on the earlier works of the authors related to the topics.

- Alina Muzioł-Węclawowicz: Regulations in the Area of Apartment Tenancy and Perspectives of Rental Housing Development;
- Martin Lux: Private and social: contradiction or coherence?
- Marek Hojsik: Social Housing developments in Slovakia
- József Hegedüs, Vera Horváth, Eszter Somogyi: Social housing in the context of the rental sector in Hungary

I.2 Transition of the social housing systems in four countries – factors toward convergence and divergence

We can argue that each of the four countries started from the same housing model – East-European Housing Model (EEHM), which can be characterized by single-party political control over the housing sector, the subordinate role of market mechanisms, a lack of market competition among housing agencies (bureaucratic coordination) and broad control over the allocation of housing services (huge, non-transparent subsidies). (Hegedüs-Tosics, 1996)

From an economic point of view, the housing system was part of the economy of shortage (Kornai, 1992). Resource allocation to the housing sector (investments, loans, etc.) was

controlled by the state, decoupled from supply and demand factors. The vast majority of services were provided “in kind” or below the market price, allocated according to “merit”. The artificially low, subsidized housing prices resulted in constant shortages, which led to the development of a dual housing market. This meant that an informal economy existed side by side with the state-controlled housing sector, consisting of self-help buildings, private transactions in the rental sector, private real estate market transactions, a market for sub-tenancy, and a small entirely private rental sector (Alexeev, 1988, 1990; Hegedüs-Tosics, 1996).

However, several versions of this model emerged as individual countries responded differently to problems within the socialist economy. Thus, structural explanations form the main features of the model, while the divergences can be characterized as “policy options” taken by individual governments. This approach could be conceived as a “soft structuralist” approach, which combines a “rational choice” (policy choice or agency choice) type of explanation with structural elements.

The same approach can be used for understanding the transition from centrally planned economy towards market economy, where structural constraints as part of globalization pushed the countries toward structural changes (democratic political institutions, privatization, decentralization, etc.), but the timing and actual institutional solutions depended on individual factors. The changes in housing system could follow the same logic. Before moving to the descriptive part of the comparison, two considerations have to be taken.

Firstly, it is important to realize that social housing is part of the welfare system, and social housing programs can never be separated from income distribution mechanisms (income benefit programs, price subsidies, tax system etc.). The mainstream approaches, however, define social housing as housing provided on a not-for-profit basis, managed either by the state or by various permutations of not-for-profit or community agencies that range from housing associations to cooperatives (Burke, 2004).

Secondly, in our understanding the social housing sector, we have to separate our approach from Kemeny’s highly influential typology of rental systems (1981), which distinguishes between residual and unitary rental regimes as the two basic options of the social housing model. The weakness of Kemeny’s approaches is that they necessarily omit two important issues: the effect of income benefit programs as a housing policy instrument, and the effect of social home ownership programs, which played significant role not only East European Countries, but in countries like Spain, Greece, Portugal. (See Hegedüs, 2013, p.5.) Moreover, as Martin Lux argues in his case study, Kemeny’s typology undervalues the role of private renting, consequently the line of demarcation between private and social rental sector is less strict. (Lux-Mikeszová, 2012).

In the transition of the housing sector has been influenced by three factors: (1) market creation strategies, which help establish new market mechanisms; (2) market correction strategies, which actively alleviate the negative social effects of the new market mechanisms; and (3) the “political stasis factor”, which makes it difficult to alter popular elements of the existing system, such as across-the-board subsidies or even regressive tax policy. Though the main challenges were the same, the role of these factors has been different in the countries involved in our comparison, which explains the differences.

Among the common trend in V4 countries the most important was the increasing inequality, which was caused by the competitive job market, however, several state interventions in the economy and social affairs even increased the social inequalities (for example the give-away housing privatization, regressive subsidies, energy price control, etc.) The growing income inequality and the reduction of the role of the state in housing finance and housing provision have led to a growing affordability problem. The challenging question for research (and policy development) is how the households in trouble could cope with this financial pressure on their household budget.

The development of welfare policy in V4 countries did not follow an overarching “grand plan”; instead, welfare policies evolved in direct reaction to specific societal problems. The various areas of welfare policy (income benefit programs, education, the pension system, etc.) were generally modified with loosely coordinated measures (Hegedüs-Szemző, 2011). This type of “trial and error” or “scrambling through” approach was more or less a general phenomenon in the region (Tsenkova, 2009).

The other important general trend in V4 countries was decentralization. Municipalities became responsible for local housing policy, while none of the countries used an adequate financial model to give the municipalities incentive to maintain and expand an efficient social sector. Housing policy did not become an entirely local matter, because nationwide housing programs were undertaken by ministries responsible for housing, like mortgage programs for private housing, or programs aiming to expand the municipal stock. However, the key element of the municipal housing policy in each of the V4 countries was the lack of financial incentives to provide social housing to those in need. One could argue that municipalities should not need a financial incentive to provide social care for their citizens, but a social housing system cannot be entirely built on a ‘social mission’. There most certainly are several municipalities that are deeply committed to social values, but their social housing programs have become marginalized, due to the lack of central budget support.

The attitude of municipalities toward privatization supports this conclusion. The mass privatization of state owned housing stock became one of the most general trends in V4 countries. In the Czech Republic there was no right-to-buy legislation, and the privatization process was slower than in Hungary or Slovakia, but the social and institutional interest behind privatization was the same, and as a result, 80% of the stock has become the property of the sitting tenants by 2013. Perhaps the most striking difference in housing policy right after the transition was the attitude toward the restitution. The Czech Republic was the only country in the region where a quite substantial private rental sector emerged because of the restitution (accounting for 7% of the housing stock).

In our study, we focus on how low-income households cope with housing affordability issues. There is no systematic research on this issue, but in our estimation 30% of the households in V4 countries face some kind of financial hardship in the housing system. We can conclude that the typical strategies of households in financial hardship include moving towards one of the following segments of the housing market:

- municipal housing;
- lower end of the owner occupied sector;
- private rental sector.

These coping strategies of households with affordability problems generate conflicts in the above mentioned sub-sectors, especially because they are not able to pay for the full cost of housing, which often leads to the accumulation of arrears, causing them to end up in an *insecure tenure situation*. A typical strategy in financial difficulty is to move downwards in the housing market, in some cases moving to remote (possibly segregated) villages without proper social services and high transportation cost to access the labor market; in other cases it could result in affordable but segregated urban neighborhoods. The risk of losing the tenure right (ownership, public or private rental tenure) and have the household cut from urban services (gas, district heating, electricity, etc.) because of the arrears has become one of the most important social problem in V4 countries in the decades after transition.

1.3 Country specific programs to improve the housing problems of low-income households

The V4 countries were under similar pressure in the transition period, but they had different reactions to the social housing issues caused by the economic and social restructuring. Municipalities became the most important new social landlords, where new housing legislation gave substantial autonomy to set policy in the social rental sector in V4 countries. The structural factors in the changed environment (relatively deteriorated stock, dominance of socially vulnerable and low-income people among the tenants, permanent fiscal pressure on local governments, lack of efficient monitoring and enforcement of central government policies and laws) were common to all the countries in the region.

In V4 countries, municipalities decide about privatization, investments, allocation of vacant units, rent levels and rent allowances (although the last two functions can also belong partly or entirely to the central government). It is formally the municipality's task to set the local social housing strategy, management companies can informally acquire decision-making powers through administrative functions and participate in preparing proposals on rent structure and rent allowances, or even proposals for national grant allocation tenders. (Hegedüs-Teller, 2013) Management companies are under pressure from local governments to improve the financial performance of the public sector, although the companies' formal responsibility is only the management of the stock. Thus, management companies have a strong incentive to improve rent collection levels, decrease rent arrears, and get rid of 'problem tenants'. Non-paying tenants, typically the poorest households who accumulate unmanageable debts, have very few alternatives to consolidate their financial situation. They can only scale down their housing costs by moving to worse housing conditions, in low-served areas, to poor settlements. The process can lead to large scale evictions and rent increases. However, there are political constraints on the "rationalization" of public housing: for instance, local governments try to avoid evictions, because they are politically very unpopular. Municipal housing is not identical with social housing. Lux argues that "public housing does not mean social housing" (Lux and Sunega, 2013). In Hungary, the majority of municipal housing de facto serves low income groups, but municipalities have the right to use their stock as market rental or cost based rental, where the social background of the households is not an important criterion.

1. Figure, Tenure structure in V4 countries (1990-2011)

	Year	Public rental %	Private Rental %	Owner-occupied and cooperatives %	Total %
Czech Republic	1990	39,1	n.a.	60,9	100
	2001	29	6,7	64,3	100
	2011	8	14	73	95
Hungary	1990	23	3	74	100
	2001	4	4	92	100
	2011	3	4-8*	89-93	100
Poland	1990	31,6	n.a.	68,4	100
	2001	16,1	n.a.	83,9	100
	2011	10,5	7,8	90,2	100
Slovakia	1990	27,7	n.a.	72,3	100
	2001	6,5	4,1	89,4	100
	2011	2	4,5	88,5	95

Sources: Hegedűs-Lux-Teller, 2013 and expert estimates

The second major form of housing management is the non-profit model. This model is widespread in Western Europe, where it has a long history of government support. Today, international donor agencies try to implement models in Eastern Europe that worked in their home countries, with varying success. The main focus of these projects is newly built housing. The Polish TBSs (“social building associations”), established in 1996, was based on the French HLM model. A TBS is a private entity that works closely with local governments to provide non-profit subsidized social rental housing. The TBS model represents a quasi-homeownership intervention rather than a long-term social rental development scheme. This conclusion is supported by a recent change in the legal framework that raised the possibility for the owner to privatize TBS units. The TBS model was very dependent on support from the central budget, which was a major constraint on its development. Moreover, the central government does not enforce its regulation of the sector, which leads to distortions in the system due to the interests of the tenants and the municipalities.

In Slovakia, a Dutch grant program, Matra, helped create a non-profit housing organization in the city of Martin in 2005 (Kandlbauerova 2004; Cervenova 2005). The project failed after three years because the municipally owned cooperative that originally managed 678 municipal dwellings was privatized – the local government wanted to save the cost of operating the program. This case demonstrates the extent to which social landlords in transition countries depend on the local government finance structure. The pressure to reconcile social and market functions appears at the local government level, which is under constant fiscal pressure from the central government, as funding is reduced and mandates are underfunded. Thus, local governments have to sacrifice some social programs, like housing, which are not based on central funding, in order to maintain their financial stability.

In V4 countries, politics (and housing policy) recognized the need for social housing. A number of programs aimed to increase the size of the social rental sector, but none of them seem to have led to a breakthrough. Realizing that municipalities are under political and financial pressure which limits the development of the social housing, both governments and donor agencies looked for other solutions in the field of non-profit housing schemes.

Thus, although governments implemented social housing programs across the region, the sector has only experienced limited expansion. Furthermore, the social and financial sustainability of the new social housing system could not be guaranteed: the operation of the sector requires huge subsidies to bridge the gap between market rents and “social” rents; tenants retained extensive tenancy rights; allocation principles remained non-transparent; the down payment requirement as a pre-condition to enter the sector led to an indirect regressive selection among possible tenants; and a number of negative factors (e.g. non-payment, deterioration of the stock, etc.) emerged. These problems and uncertainties explain why both tenants and landlords continue to press for further privatization.

1.4 Private rental sector: can Social Housing Agencies work in V4 countries?

Private rentals are becoming a crucial area for housing policy, although we have very limited information on it because it largely operates in the informal sector. As a consequence of restitution, a new private rental sector emerged (most significantly in Prague), which has become an area of conflict between private tenants and landlords. The new owners were generally successful in putting the burden of increased rents on the tenants and the governments in the form of rent subsidies (like in Slovakia, where the difference between the regulated rent and the market rent has to be paid by the municipality). Another possible consequence of restitution was that the restituted housing units remained part of the formal economy, in contrast to the housing let by individual owners (not professional landlords) typically without registration or taxes. Those low-income tenants who are forced to rent apartments in the informal rental market are extremely vulnerable, as they are not eligible for social programs if they cannot register with the authorities.

The future role of the private rental sector is a key issue. This sector can contribute to the efficiency of the housing system by making higher mobility possible, providing a more flexible housing supply and helping to eliminate distortions in the system, etc. Moreover, the private sector can be used for social purposes, as in the case of social rental agencies in countries like Holland, Belgium, Italy, etc., which can be especially important at a time when there is no demographic pressure for new construction. In V4 countries there were several attempts to involve the private sector in rental programs, but most of the programs failed. In Poland, the introduction of “occasional tenancy”, a special tenure form, shows the need for support of the development of the legal private sector.

The need for social housing and the limited financial resources to invest in social housing forced public agencies to use the private rental sector in certain types of social housing provision. In Hungary, several programs initiated by the municipalities and NGOs have been connected to the private rental sector typically in the form of rent subsidy, but some programs provided social services for the tenants or helped them find rent apartments. Though the programs remained limited in terms of the number of the tenants, it shows the existence of the possibility to use private rental for social purposes. The project of MRI and Habitat to Humanity recently made a proposal to establish Social Rental Agencies (SRAs) in Hungary whose goal would be to connect the unused housing stock with the demand for affordable housing through managing the risks associated with the private rental sector. The idea is that the local SRA rents out apartments from private landlords, for a fee slightly below

market rent. In return, the SRA provides guarantee towards the landlord for rent payment and the state of the dwelling. With the help of moderate rent levels, coupled with local and central rent/housing support, the SRA then provides affordable rental housing to low income target groups on a larger scale.

In the Czech Republic, the idea to use private renting for a social purpose has been discussed in the past few years, and was thought to be part of the “complex solution of social housing” set by the Housing Policy Strategy until 2020, passed by the Government in 2011. The pilot “guaranteed housing” program used private rental housing for vulnerable (disadvantaged, at risk) households, with special guarantees provided to private landlords. The model became part of the Strategy for Social Inclusion, passed by the Government in 2011. The “guaranteed housing” program in the Czech Republic is basically the same as the Social Agency Model. It uses the existing private rental housing stock for social purposes, i.e., as permanent rental housing for vulnerable, excluded, homeless, Roma, young and low-income households. The private landlords would receive a guarantee covering the costs following from risks connected with renting the flat (payment of rent, flat devastation, and judicial costs in case of notice) if they offer the long-term rental contract with lower-than-market rent to households/people from target population.

In Poland, the TBS (housing cooperative) program was a progressive step toward a new social housing model, but the budgetary constraints and the “privatization drive” questioned the sustainability of the program. Some of the TBSs are renting apartments to municipalities who allocate them to households on the waiting list, which actually is a form of social rental agency. Moreover, municipalities may rent housing premises from investors and sub-lease them to tenants from their lists of people who qualify for housing support of the commune. Such contracts are concluded for unspecified time (premises of the status of communal rental apartments, TBS premises) or specified time (social premises). However, availability of apartments for the needs of social rental agencies is highly problematic. The current market prices are too high in comparison to the social rent (which are affordable for low-income people), which will be difficult to bridge by the state subsidies. In Poland, the quantity shortage of housing is another factor which limits the possibility of the social rental agency model.

In Slovakia, the traditional supply side social housing programs run by the State Housing Development Fund are still the mainstream approach. According to Marek Hojsik, the limited supply of the private rental sector makes the social rental agency model unrealistic.

1.5 Conclusion

Social housing sectors in V4 countries are in a crisis. As a consequence of privatization, public housing sector reduced to 2-12 % of the stock, which is much less than what the countries need to house low-income households. In spite of the efforts (and political wish) to increase social housing, the prospect that the publicly owned social housing stock will increase is very improbable because of the fiscal pressure on V4 governments. Though there are differences, Slovakia seems more determined in supporting social housing investments; however, it has the smallest public stock today. Consequently, the involvement of the private

sector will be inevitable to help the households in need. The attempts to introduce PPP models seemed unsuccessful because the subsidy level of the programs was beyond the capacity of the governments. Poland's TBS is the most promising example, but the support for this model has been cut recently.

In this situation, the private rental sector seems to be an adequate option. Because of the demographic changes (out-migration, population decrease, etc.), a part of the existing privately housing stock can be used for social purposes. The advantages for the PPP programs would be to restructure the social housing sector in the countries in two aspects:

1. the cost recovery requirement used in private rental sector would stop the deteriorating process in the public sector (or at least alleviate the problem);
2. national social housing policy guideline will steer municipal housing policies toward a more targeted programs.

In V4 countries several attempts have been made in this direction, but they faced several constraints. First, a strong political will is missing, as politicians and political parties did not realize the social cost of the poor housing situation of low-income households. Second, the poor regulation and conflicting legal framework of the private rental sector wages a huge external cost on society. Major changes are needed in tenancy legislation in order to use the sector for social purposes. Third, there is need for a change in housing policy paradigm, moving away from middle class private ownership support toward targeted social rental programs.

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II. Czech Republic: Private and social: contradiction or coherence?

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II.1 Introduction

General housing theory (e.g., Kemeny 1981) views often private and social housing sectors as reflection of two separate and competed ideologies: privatism and collectivism. Based on this ideological cleavage, Kemeny (1995) distinguished housing policy models as being either dualist (stigmatising tenancy and unilaterally supporting owner-occupancy) or unitary (tenure neutral) in nature. The dualist model is strongly associated with policies that discourage social housing and develop it only as a safety net “to take care of those who become the casualties of the workings of the profit market” (Kemeny 1995: 9). Unitary models in contrast encourage social housing thereby allowing the public rental sector and owner-occupied sectors to compete.

However, Kemeny’s influential typology undervalues key feature of German and Swiss housing systems where a policy allocates an important role to private renting. The real essence and role of private renting are missing in his considerations and his typology remained uncompleted (Lux, Mikeszová 2012). Consequently, contradictions between private and social may be much weaker if we assess the role of private renting properly; and if we especially take into account its potential role in the social field.

In post-socialist countries the ideology of free market in early 1990s led to quick and radical changes in tenure structure in favour of owner-occupied housing, especially through mass giveaway privatization of public housing stock. Some countries became, what is called, super-homeownership state, and public housing diminished to marginality. Only recently the governments in these countries see that not everyone can afford to become a homeowner but number of public housing is too small to meet the demand for affordable renting.

Due to public budget constraints, mass social housing investments in these countries are practically impossible. However, recent dualist housing systems in post-socialist countries still have a chance to evolve to a more balanced system type – and that is one missing in Kemeny typology. This is a system type where homeownership is balanced by significant and stable sector of private renting that serves also to social goals. We call this system “unitary private” and, in this chapter, search for its possible gradual evolution in the Czech Republic. More precisely, we test whether private rental housing could serve to social goals in the Czech housing context.

II.2 Recent status of public (social) rental housing

The Czech Republic is an example of a country with extremely fragmented social housing policies with de facto no central coordination or regulation. There is no legal definition of social housing, except for the Act on Value Added Tax No. 235/2004. This law provides a

definition of social housing in relation to the lower VAT tax rate applied to new housing construction. There is also no special legislation on not-for-profit housing or housing associations. Not-for-profit organizations most often own only temporary 'crisis' housing (shelters, hostels, half-way houses etc.) for people in acute housing need, such as the homeless, victims of domestic violence, refugees or ethnic minorities. The temporary facilities are operated as social service under the Law on Social Services.

Thus the municipalities are the only owners of the long-term rental housing provided at below-market rents and without a need to offer special social services to tenants. However, their obligations are only vaguely defined, with no explicit requirement to ensure the provision of housing to poor or vulnerable citizens.¹ Consequently, in the Czech Republic public housing does not mean social housing (Lux, Sunega 2013). Especially in the past, the large part of public housing was occupied by relatively well-off households that would not need any specific rental discount (Lux et al. 2009).

The second unique aspect in the development of the Czech housing system is that no right-to-buy legislation was passed in 1990s; opposed to the situation in most other post-socialist states. Consequently, the tenants in public housing did not receive the right to buy their occupied dwellings under centrally set preferential criteria. However, the state decided to keep the original pre-1990 type of non-targeted regulation of rents, and to allow only small and gradual rent increases until 2007. Consequently, municipalities were unable to introduce any effective way of managing its housing and began voluntarily to privatize it. The flats were mostly sold to sitting tenants at a low price, though conditions varied from one municipality to the next.

In 2013, the final results of 2011 census were released by the Czech Statistical Office. According to them, rental housing formed 22% of total housing stock: while private renting formed 14% of housing stock, public housing only 8% of the total housing stock in 2011. Recently, due to continuing public housing privatization by several municipalities after the date of census, the stock of public housing probably further diminished, according to our estimate close to 7% of total housing stock. For comparison, in 1990 the public housing represented 39% of housing stock – the scope of marginalization of this housing tenure is therefore similar to the post-socialist states that applied right-to-buy policy, though the process of such radical tenure change has been much slower in this country. The homeownership rate reached 78% in 2011 - this figure includes coop housing that has, when evaluated from the perspective of disposal rights of housing coop members, de facto status of owner-occupied housing in the Czech Republic.

With the exception of rent regulation on running tenancies, Czech municipalities became free to manage and allocate public housing according to their will from the very beginning of economic transition. There was no state regulatory framework on public housing management, no regulations on the scale or form of public housing privatization or public housing allocation. Some municipal flats have been privatized, some were rented out for market rents and some were rented at below-market rent to people in housing need. For the latter case, the municipalities adopted their own social housing policies and introduced

¹ The Law on Municipalities (No. 128/2000) only declares that municipality cares for establishment of conditions for social care and satisfaction of needs of its citizens, such as needs for housing, health protection, transport, information, education, overall cultural development and protection of public order.

various scoring systems to assess housing need. Each municipality incorporates own interests and needs into its strategy.

The final barriers limiting the freedom of municipal housing management – rent regulation – fell with the Act on Unilateral Rent Increase that came into power at the beginning of 2007. All Czech municipalities, as well as private landlords, got a right to increase rents to market levels gradually till 2011; later the deadline has been, due to global economic crisis, prolonged in the biggest Czech cities to the end of 2012. During rent deregulation, some municipalities increased rents to market levels while many others increased them substantially but still kept them under market values. There is no statistics on such differences, neither on overall average level of current municipal rents.

Recently, all rents in both municipal and private rental segments, and for both running and newly-signed rental contracts, are fully liberalized. For running contracts, they can be changed only by mutual agreement between tenant and landlord and if tenant does not agree with new proposed rent level, he can turn to the Court. According to the Act, rents cannot exceed the locally relevant rent levels. However, the locally relevant rent concept is not defined in the Act and in case of dispute, the Court can base its decision on different sources: for example, on the map of locally relevant rents for different zones/ municipalities operated by the State Fund for Housing Development (SFHD) or on individual valuator survey made by tenant or landlord for particular dwelling. In the recent map managed by SFHD, which is not however binding for courts, the locally relevant rent levels are computed or estimated by valuers from rent prices set in contracts concluded on the free market during previous three years in particular municipality. The whole system of second-generation rent control is close to the system applied in Germany. The number of judicial disputes about rent level is not high – also due to the fact that municipalities mostly did not increase rent levels to fully market levels and most contracts in the private segment are short-term (i.e., rent levels are re-negotiated after each period of the contract).

Despite of rent deregulation, municipalities continued and still continue to privatize its public housing under giveaway conditions to their tenants. This is the outcome of several factors; one of them seems to be very important. The main factor may be termed “a privatization trap”. Once politicians started to privatize public housing for giveaway prices they were politically unable to limit this process because of raised expectations and requirements of tenants for equal treatment. As public housing privatization was politically difficult to restrict, an unintended consequence of early privatization was the establishment of a social norm where all public tenants expected to buy their dwellings for a giveaway price. Later state interventions were too weak to change this situation and irreversible residualization of public housing took place (Lux, Sunega *forthcoming*).

The high level of decentralization is also one of the factors explaining the lack of a central social housing strategy that would set limits on public housing privatization or introduce any regulations on municipal housing management. Many municipalities effectively resist any kind of central government intervention, and do so by referring to local budget constraints. All attempts to draw up a central social housing strategy or to strengthen the municipalities’ legal responsibility for providing housing to their poor citizens have been unsuccessful until now because they did not include sufficiently strong financial incentives.

The state kept only indirect influence on local social housing strategies – through allocation of specific and relatively marginal state housing subsidies. Recently, there are only two largely insignificant central subsidies that could be used for new development of social/public housing: state-backed guarantees on loans to housing developers and preferential loans for rental housing construction.

Since 2010, the SFHD has been offering guarantees on loans to housing developers that build rental housing. The aim of the programme is to motivate private capital to invest in rental housing. The SFHD offers to guarantee up to 70% of the loan; the maximum amount is EUR 60,000 per new housing unit. The allocation of dwellings is not means tested. The cost of the guarantee is 0.6% p.a. on the outstanding amount of the loan. So far, neither housing developers nor municipalities have shown almost any interest in this kind of guarantee.

Since 2011 the SFHD has offered low-interest loans for the construction of new rental housing. The subsidy rules (interest rate level) are determined by the type of target group. The first target group includes only the elderly (over the age of 70), people with disabilities, and people whose housing was destroyed by flooding. The second group is open, i.e., no targeting to specific tenants is required. The maximum loan is equal to 70% of the cost of the housing's construction. The loan maturity is up to 30 years. The flat must be rented for the whole term of amortization of the loan; the minimum term is 10 years. Until recently, only few private projects received this preferential loan financing, especially for building special rental dwellings for elderly charged by market rents.

In 2011, the new Housing Strategy till 2020 has been approved by the Czech government. The strategy sets general goals of Czech housing policy for next decade; among them also “complex solution of social housing” (*Housing Policy Strategy* 2011). However, the work on this specific task started only in late 2012 and no concrete measures were elaborated by responsible ministries (Ministry for Regional Development and Ministry of Labour and Social Affairs) until mid of 2013.

There is a large ongoing discussion on solution of this strategy tasks in media and among politicians nowadays, especially concerning both the content and form of measures. When discussing the content, the issues such as targeting (definition of housing poverty), role of municipalities (possible strengthening of their duties towards providing shelter to vulnerable households) and private landlords (possible use of guarantees to use private stock for social purposes) in provision of social housing as well as the role of social work and benefits in social integration process are recently discussed. Concerning the formal issues, the discussion turns around the point whether it is necessary to pass special act on social housing or whether just set of government measures would be sufficient. The process is complicated by unstable political situation and government demission in mid of 2013.

II.3 Recent status of private rental housing

Private landlords

After the political changes of 1989, the first step in the subsequent transformation process involving housing was the restitution of housing stock that had been expropriated by the socialist regime. The process of property restitution began in April 1991 and it applied to that part of the housing stock that was nationalized between February 1948 and January 1990.

According to the restitution legislation, the original owner or his/her heirs were the persons entitled to apply for return of property through restitution in kind. By 1993 most of the property transfers were completed. Approximately 7% of the national housing stock was restituted to previous house owners. However, in central Prague as much as 70% of the housing stock was restituted (Sýkora and Šimoníčková, 1994). Consequently, due to relatively large restitution of expropriated housing property, the whole blocks of flats started to be owned by private mostly physical persons, especially in central locations of bigger cities, and this was an important start-up for an establishment of both professional and institutional private rental investments in the Czech Republic.

When analysing the reasons for such large property restitution in kind from the perspective of social constructivist sociological theory, it appeared that two prevailing myths underpinned the influential social construct that justified the necessity of large property restitution in kind in early 1990s (Lux, Mikeszová 2012). Firstly, there was the myth concerning the need to atone for the wrongs of the past. Second, there was the myth of having a free market without regulations: the existence of which necessarily required the presence of private property (Lux, Mikeszová 2012). The second myth had universal appeal and was rarely debated. Given the long tradition of rental housing and private renting in the Czech Republic (or Czechoslovakia), stretching back before 1948, the restitution of residential buildings was also regarded as one way of establishing continuity with the much idealized pre-war 'First Czechoslovak Republic', and this was the third, albeit clearly weak, myth that helped bring about the relatively rapid and consensual acceptance of property restitution in kind.

However, the prevailing myths supporting housing restitution stemmed from universal ideologies, i.e. moral atonement and the strengthening of private property, rather than any specific housing policy discourse. The long-term equity consequences or enduring impact of restitution on the housing system were essentially ignored. Unlike the restitution of industrial assets, there was a specific dimension to the restitution of residential buildings: most restituted flats had sitting tenants, and their rights remained unaltered – and inviolable – under the restitution process. The state not only left the protections accorded to tenants unaltered, but also preserved rent regulation in restituted properties.

As stated above, for a long time the Czech housing system maintained a very conservative rent control regime, which applied to both municipal and private (restituted) running tenancies. Market rents could be charged only for newly signed rental contracts (since 1993) and regulated rents were, for a long time, kept under the basic management and maintenance cost level. Yet the state did not offer restituted tenants any form of financial compensation, and this put them at a disadvantage in the landlord-tenant relationship.

Between 1999 and 2006 the rents for running tenancies (contracts concluded before 1992) remained frozen and this exacerbated also tensions between 'insiders' (old tenants) and 'outsiders' (new tenants). By 2000 the Constitutional Court ruled that Decree No. 176/1993 Coll. regulating the level of rent violated certain articles of the Charter of Basic Human Rights and Freedoms and Article 1 of the Constitution of the Czech Republic. The Court decided that the decree should become null and void by the end of the following year (2001), and that new terms and conditions for negotiating the level of rent should come into force in the beginning of 2002. However, parliament had not adopted a new act until 2006. In 2006 the situation suddenly changed when Polish landlord Hutten-Czapska won the case against the

Polish state in a dispute before the European Court for Human Rights. The Czech government quickly prepared a plan to deregulate all rents until 2011 (later prolonged to 2012 in big cities) to avoid payment of financial compensations to private landlords of rent-controlled dwellings.

Besides the property restitution, privatization of former state enterprise housing stock, and also some municipal housing stock, to the institutional investors made additional impetus to the growth of private renting supply. On the Czech housing market there gradually appeared few private institutional investors during economic transition; two of them became even dominant private landlords in local terms. For example, in the North Moravian region the privatization of large state coal-mining company included also sale of more than 44,000 enterprise flats that are recently owned, rented and managed by institutional investor RPG. The second largest institutional investor, CPI, owns and rents out more than 12,000 flats in the North Bohemian region.

Despite of rent regulation, the investments of professional investors were in fact profitable at the end, especially due to low purchasing price and subsequent rent deregulation: the purchasing prices were low either due to bad state privatization strategy or the fact that flats with running tenancies burdened by rent control were on the free market sold for prices deeply under their market values. The investors took a risk and assumed that rent control will be waived in the foreseen future. Consequently, the profit from investments accelerated due to low acquisition price and possibility to charge higher rents when rents started to be deregulated. Other professional investors bought also housing stock from restituted; once again for low price due to rent regulation regime in the time of purchase.

Because there were no limits on setting the initial rents for vacated flats (new tenancies) and because early in the transition there was a shortage of rental housing for new households, there soon also emerged a large number of small-scale accidental investors in the market owning and offering just one or two empty flats. The share of official private rental housing out of the total housing stock thus increased very quickly compared to the pace in advanced countries, going from almost zero in 1990 to 7% in 1993 (as a result of property restitution) and 14% in 2011. It is impossible to have precise information, or even robust estimate, of shares of stock owned by different types of landlords; the share of stock owned by institutional and professional landlords is, however, substantial in the Czech Republic.

Moreover, the overwhelming majority of the census-surveyed private rental tenancies (14% of housing stock) are legal, i.e. based on written and properly signed rental contract between landlord and tenant. It is estimated that additional housing stock owned by small accidental landlords is also rented out on very short-term basis (student housing) in the shadow economy and, therefore, total share of private rental housing very probably exceeds 18% of national housing stock.

There might be several reasons why most of the private rental contracts are based on legal written agreements, the situation of which distinguishes the Czech Republic from most other post-socialist states. The reasons can be, for example: (a) relatively large property restitution in kind creating professional landlords (physical persons) owning all flats in the apartment houses; (b) entry of institutional investors who own from hundreds to several thousands of flats recently; (c) generous tax conditions, allowing discounting house depreciation from rental income for both professional and small investors.

The previously conservative tenant security has been also weakened after 2000 by several amendments of the Civil Code, and it will be weakened further by the new Civil Code that will come into force in 2014. For running contracts, the notice from landlord can be given only in cases specified in the Civil Code, i.e. especially in case of rent arrears (cumulated arrears amounting to three months' rent) or serious breaching of good conduct rules; the tenant can give a notice without any reason at any time. The notice period for both sides of the contract is set on three months. Originally, if tenant disagreed with the notice the landlord had to turn to the Court; according to later amendment, it is the tenant who had to turn to the Court if he disagrees with the notice, otherwise the notice becomes valid.

The amendments of the Civil Code also weakened the duty of landlords to find alternative housing in case of eviction – before amendment, the tenant had to agree with alternative housing which is not the case nowadays. Although there is no precise statistics on the average time of judicial procedure during justified eviction (for example, due to arrears), it decreased substantially in the last decade according to opinions of private landlords themselves – while it could be more than two years in around 2000, it is estimated to be about one year on average nowadays. However, even one year term for justified eviction (e.g., due to rent arrears) is perceived by landlords as too long and posing high risks. The risks connected with possible arrears are therefore mitigated especially by setting a short term in newly concluded rental contracts (most often one year) and by deposits taken from tenants when contract is concluded (most often amounting to one or two months' rent).

The risks connected with rent arrears among low-income households can also be effectively managed by relatively generous benefit system in the Czech Republic. All tenants registered as a permanent resident in the given property are entitled to a housing allowance if 30% (in Prague 35%) of family income is insufficient to cover housing costs, and at the same time this 30% (in Prague 35%) of family income is lower than the relevant prescriptive housing costs. The rest of housing costs above an amount paid by household (computed from its income) is covered by a housing allowance. Thanks to rent deregulation, prescriptive housing costs are set on levels reflecting the free market rents recently. Moreover, additional benefit - housing supplement - addresses cases where the income of the person or family, including the housing allowance, is insufficient to cover justified housing costs. The benefit is provided to dwelling owners or tenants who are entitled to an allowance for living (living minimum). The amount of the supplement is determined in such a manner so that the person or family has paid all justified housing costs and are left with an amount equal to the living minimum. Consequently, for families with no income the housing supplement may actually cover total housing costs.²

Both social benefits can also be allocated directly to the landlord if the social security department of particular municipality approves the request from the landlord. The generous benefit system is important part of rental strategies of institutional landlords but it is not an exception that also small accidental landlord accept people that are eligible for benefit. It is also argued in mass media that some landlords, especially of private lodging houses, abuse generous benefit system to get high profits by providing low-quality accommodation to poor people.

² In 2012, the Ministry for Labour and Social Affairs paid on housing allowance 5.7 mil. CZK (228,000 EUR) to about 4% of Czech households; and on housing supplement about 1.7 mil. CZK (68,000 EUR) to about 1% of Czech households. Tenants are main recipients of both benefits.

The rapid growth of private renting stock and, especially, anticipated deregulation of regulated rents after 2007 helped also to stabilise the market rents. While the average flat price between 2000 and 2008 increased by almost 200%, the increase in average market rent was much more gradual – it grew only by 64% (Lux, Sunega 2010). The value of the price-to-rent ratio increased, for example, in Prague, between 2000 and 2008, from 13.7 to 26.0, so it almost doubled. This substantially increased the financial appeal of market rental housing for the end user when compared to its main substitute – owner-occupancy. After 2008, the homeownership increased its financial attractiveness due to house price and interest rate drops but the difference between user costs of homeownership and private rents remained small.

Private tenants

This section shows the differences between the private rental segment and owner-occupied housing tenure (as the main substitute) both in the structure of housing stock and in the social structure of inhabitants. The data analysis has been made by Lux, Sunega (2010), using merged datasets from the EU-SILC surveys 2007 and 2008.

Table 1 shows the results of logit regression model analysing the probability that a flat is rented privately (against the probability that it is owner-occupied). The data analysis has been made only on subsample of dwellings - dwellings in apartment houses. Table 1 clearly demonstrates that smaller flats with lower technical standards (problems with humidity, insufficient light, or external noise) were associated with a greater chance that the flat will belong to the private renting segment (PRS). As crosstab analysis confirmed the PRS flats are in worse technical condition than owner-occupied housing. It is also interesting to see that the PRS is not concentrated in Prague – in the least developed North-Bohemia regions (characterised by low salaries, low house prices, and a high unemployment rate) the chance of a flat being part of the PRS is much higher than it is in Prague.

Table 1. Parameters for logit regression model on dwelling structure differences

	B	S.E.	Wald	df	Sig.	Exp(B)
Rent (imputed rent for OO)	0.003	0.000	960.784	1	0.000	1.003
<i>Other type - ref.</i>						
Apartment house	2.567	0.148	299.357	1	0.000	13.027
The number of rooms	-1.325	0.068	384.197	1	0.000	0.266
Humidity	1.446	0.152	91.023	1	0.000	4.247
Insufficient light	0.881	0.236	14.003	1	0.000	2.414
External noise	0.257	0.137	3.528	1	0.060	1.293
<i>Prague - ref.</i>						
Central Bohemia region	0.520	0.263	3.916	1	0.048	1.683
South Bohemia region	1.370	0.313	19.147	1	0.000	3.937
Plzeň region	0.807	0.278	8.422	1	0.004	2.240
Karlovy Vary region	0.877	0.333	6.962	1	0.008	2.405
Ústí nad Labem region	2.404	0.235	104.275	1	0.000	11.070
Liberec region	1.682	0.295	32.495	1	0.000	5.374
Hradec Králové region	1.329	0.295	20.294	1	0.000	3.777
Pardubice region	0.923	0.319	8.357	1	0.004	2.516
Vysočina region	1.221	0.372	10.777	1	0.001	3.391
South Moravia region	1.167	0.268	19.001	1	0.000	3.212
Olomouc region	1.406	0.275	26.206	1	0.000	4.080
Zlín region	1.147	0.307	13.965	1	0.000	3.149
Moravia-Silesia region	1.861	0.230	65.633	1	0.000	6.429
Constant	-4.743	0.288	271.209	1	0.000	0.009

Source: Author's computation, EU-SILC 2007–2008. Nagelkerke R-square 0.765; prediction accuracy 95.9% (78.6% for PRS); dependent variable: 1 – private-renting, 0 – owner-occupation.

The public rental sector's tenant is 'typically' associated with unemployment, low per capita income, young age, single and small-sized households (Lux, Sunega 2010). Consequently, the results of tenure choice models showed that the PRS in the Czech Republic acquired the character of transitional and residual housing than of a stable life-long housing alternative to owner-occupation. Despite of the substantial growth of private renting and its legal and professional status, the demand for this form of tenure resembles the situation in countries like UK or Belgium; and not the situation in countries like Germany or Switzerland. The private renting did not get popularity and remained kind of temporal housing for people on the beginning of housing career or residual housing for people on low income who cannot afford to buy own housing.

The most probable interpretation of this finding is that quick increase in the supply of private renting was accompanied by the quick structural changes in the demand for rental housing generally. The conditions unilaterally supporting the quick supply of new private rental dwellings on the market at the same time constrained the long-term demand for them. The policy that favoured strict rental housing segmentation (conservative rent control in one part of stock and full liberalization of rents for new tenancies) instead of reforming the general rules of the game (introduction of a second-generation rent regime and new universally applied tenant protection rules) is very probably, after taking into account the features of the

general context of the 1990s, the main reason why nowadays the PRS is perceived only as a residual and transitional form of housing.

Consequently, it became clear that the way to more balanced housing system, i.e. “unitary-rental” system, will be very long in post-socialist environment recently, even in a country such as the Czech Republic where: (a) rents are already liberalized; (b) rents are financially more or less equal to user costs of homeownership; (c) most of rental contracts are in written forms and legal; and (d) the share of professional and institutional private landlords is relatively significant.

II.4 Private renting serving to social goals

History and context

The diminishing number of municipal housing and lack of social housing policy on the level of state and most municipalities is partially substituted by inter-generation housing wealth transfer, which, however, practically excludes the most vulnerable households. The generous benefit system can protect low-income and vulnerable people in private rental housing but the problem is that most accidental (small) private landlords prevent tenants from registration of permanent residence and this fact excludes them from a possibility to apply for a housing allowance. However, it can be expected that when confronted with increasing competitiveness on the rental market the private landlords will change their habits – at least, if they intended to rent out their flats in long term.

The small number of social housing in the Czech Republic affects, however, mostly households who face discrimination, or said properly, who are disadvantaged on the housing market. These are people evicted in the past due to rent arrears or generally homeless people living rough or in shelters; but also people who are perceived by (both private and public) landlords as risky, despite of the fact that they did not experience any arrears or misconduct in the past: unemployed people, large families, immigrants, young people with no or only short working experience and, especially, households of ethnic minorities, such as Roma households. These people can often rely only on asylum housing provided by NGOs or municipalities, temporal lodging housing facilities of private landlords or, at best, rental housing in socially and spatially segregated areas. The road to permanent, qualitatively standard and spatially inclusive rental housing is extremely difficult for them, though there are already several examples of successful integrations both at municipal and NGO level.

As it cannot be expected that government will subsidize the new social rental housing output on larger scale (also due to recent austerity measures), the discussion about the use of private rental housing stock for social purposes already started four years ago in the Czech Republic. Recently, the governmental Agency for Social Inclusion have already launched a pilot for the system called “guaranteed housing” that is designed for households endangered by social exclusion and low housing affordability. The main idea of the system is to use existing private rental housing stock also for social purposes, i.e., as permanent rental housing for vulnerable, excluded, homeless, Roma, young and low-income households. The private landlords would receive a guarantee covering the costs following from risks connected with renting the flat (payment of rent, flat devastation, and judicial costs in case of notice) if they offer the long-

term rental contract with lower-than-market rent to households/people from target population.

The guarantee fund for pilot test is financially supported by the Open Society Institute and, in the future, the system of guarantees can be switched into classic commercial insurance product. The eligible households/people will be selected by municipalities or NGOs (those working with people in acute need of permanent housing); NGO thus will work as social rental agency and social service provider at once. Training of skills of eligible households is provided in flats owned or leased by NGOs (up to one or two years), and it applies only to people with lack of skills to keep long-term housing – for example those evicted due to rent arrears or misconduct in the past. In case of default in “guaranteed housing”, NGO will again assure shelter for evicted household.

The “guaranteed housing” concept has been presented on several meetings with NGOs, private landlords, municipalities, policy makers, and politicians in the last four years. Except for the Ministry for Regional Development, it has been basically supported by the stakeholders, and therefore it became part of the Strategy for Social Inclusion passed by the Czech Government in 2011 and part of the proposal of the Strategy for Tackling the Homelessness prepared by the Ministry for Labor and Social Affairs in 2013. The negative attitude of the Ministry for Regional Development towards this concept substantially prolongs its effective use in the practice because it is this Ministry that is responsible for housing policy formulation in the Czech Republic.

Methodology of research among eligible households and landlords

As indicated above, there was a range of discussion forums and round tables on the issue of “guaranteed housing” with many different stakeholders. Additionally, we conducted a qualitative research among potential eligible households. The research intended, among other goals, to find out what would be the interest for this concept among potential beneficiaries. Two groups of potential eligible households were surveyed: homeless people and young people.

In our empirical research among homeless people we conducted our interview fieldwork in three geographically diverse locations in the Czech Republic in order to partially control for the effect of specific local factors. The first location was Prague (the capital). The other two fieldwork locations were the cities of Ostrava and Brno: these represent two of the largest urban centres in the Czech Republic. Six focus groups (with 59 homeless respondents) were conducted to examine the statements of homeless people themselves. In addition to the focus groups, ten in-depth individual face-to-face interviews were conducted with people who had lost their housing in Prague. We used the ETHOS typology for our research and interpreted homelessness in its widest sense: respondents were not just people without a fixed residence, but also included people living in temporary, unhygienic or makeshift housing conditions. In the second stage of this research, 26 semi-structured interviews were also conducted also with social workers. The central goal of this set of ‘expert’ interviews was to obtain information regarding the causes of homelessness and the possible routes to successful reintegration into society.

In our research among young people (Vobecká et al., *forthcoming*) we conducted two focus groups. We recruited the participants through an advertisement, using the snowball method. Only people between the ages of 18 and 35 living in Prague, working or looking for job (but not students) were included in the focus groups. They also had to be in a permanent relationship with partner or spouse (with or without children) and had to be willing to change their housing situation. A total of seventeen participants were recruited for two focus groups. The issues of the focus groups included perception of what is satisfactory housing, what is home, what is a satisfactory home for family with child/ children, what are housing histories of respondents.

The research among both homeless people and young people had different primary goals, such as to detect main causes of homelessness and main barriers to full integration in the research among homeless people, or survey attitudes towards rental housing in general in the research among young people. However, towards the end of each focus group or interview a policy tool “guaranteed housing” has been presented to participants and then discussed.

Finally, there was also the round table debate with the landlords organized in 2009. Here we focused on the conditions under which would the landlords provide long-term contracts especially to young tenants and whether a “guaranteed housing” could be inspiring and applicable in the Czech context. Participants in that debate included 22 representatives of housing departments of the selected local governments (10 representatives), private landlords (8 representatives, both small and institutional landlords) and governmental agency for social inclusion (4 representatives).

Findings from the research among homeless people

We found out from interviews among social workers that one of main barriers to the full re-integration of homeless people represents generally low housing accessibility. *“It is hard to obtain housing for those living in asylum housing on the free market due to two reasons: first, it is the financial reason, as flats are expensive and there is not very big difference in price among locations – i.e., it is no matter whether flats are in Brno or Blansko. The second reason is that landlords do not want to rent out flats to former clients of asylum housing. This is the factor of social exclusion when these people are disadvantaged to others.”* (social_worker_13)

At the same time, housing situation has clear consequences in other areas of re-integration. *“I must have housing, mainly housing, to get a job.”* (focus_group_05) *“If I do not have housing, I will not have a proper job. You get tainted by night shelter and then you have no chance to get even temporary job.”* (homeless_02)

The impossibility to get independent housing leads to demotivation and resignation. Despite of the fact that focus groups and interviews showed that a proper housing accessibility is not the only one, nor even the most important, factor for successful social re-integration of homeless people (see details in Mikeszová, Lux 2013) it went out that it represents a very significant barrier to it. The survey results also demonstrated that recent housing policy tools are not effective enough in case of prevention of homelessness (the lack of information about safety net tools among people) and, especially, for the successful re-integration back to long-term proper housing.

Despite of the fact that evaluation of “guaranteed housing” tool among homeless people was not by far unambiguous, the focus groups showed, that involvement of NGOs in the model substantially increases the trust to the programme. It went out that homeless people distrust to municipal authorities and, on the opposite, they see as a key condition to the success of the model the involvement of NGOs. They feel that NGOs really help them according to their interests. The respondents also positively accepted strict rules of the model: *“The rules are valid for both sides. This is for me a guarantee that if I meet the rules then I will really get housing, this is very important that is not just a fairy tale. And this creates strong motivation, if there is a chance that I will have long-term flat in two or three years.”* (focus group_02)

There was also another cleavage that the survey results showed: it has been perceived more positively among young homeless than those in older age cohort as the latter did not see in the programme the solution of their problem. Finally, the focus group respondents expressed concern about real functioning of the programme - that it might be, when really applied in practice, intended for other eligible households (less socially excluded) and that the capacity of the programme will be low, thus preventing them being effectively involved.

Findings from the research among young people

The young people at the beginning of their working career, i.e. the second target group of potential “guaranteed housing” model, valued during focus group research most the chance of obtaining a lease for several years and a level of rent guaranteed. In the respondents’ view, the programme could only be effective if it was well publicised. Application and information on the programme ought to be available on-line. The instrument should not contain any complicated administrative procedures or excessive ways of checking up on tenants.

The second most important point was that the supply of flats proposed by the programme should be sufficiently wide in terms of number the size and quality of the housing. Some respondents were convinced that only flats that are hard to lease in the open market would end up in the programme and that any worthwhile flats would be quickly picked up by friends of staff working for the municipal authorities or would only be offered to selected applicants on the basis of favouritism.

“[Guaranteed housing] could work, and we can debate that, but there are lots of question marks and I think that there won’t be any nice flats because the nice flats will get rented all on their own, for a price above market level. That the flats that will be left will be those with a window on to the tram lines, windows filled with dust, on the ground floor. Those are hard to let.” (focus group_02) *“The thing is that the entire project will be overseen by people so that it will still become corrupted, so I doubt it...”* (focus group_01)

Findings from round table with landlords

The round table with landlords was used as a methodological complement to focus groups with potential young tenants. The debate showed that among landlords a strong mistrust was rooted against tenants which made the long-term leases undesirable. The mistrust is fed by a fact that eviction of an insolvent tenant today may take long time to be executed because of a slow acting of the courts. The bad experience with insolvent tenants cited during the

debate concerned however exclusively the tenants with state regulated rents and open-term leases sustained from before 1989.

When we presented to landlords the design of “guaranteed housing”, it appealed to representatives of both large and small municipalities as well as private landlords. Many private landlords claimed that if they were provided with guarantee they would not be opposed to signing a long-term lease. One landlord expressed the view that in Prague it might not be too attractive to some landlords in areas where there is no difficulty finding someone to rent a flat. The representatives of municipalities were sceptical about the proposal to insure the flats against risks of rent default and flat damage. They estimated that the insurance companies would probably not want to insure such flats. The fear was also expressed that many tenants might even abuse the system by deliberately defaulting on rent. Most of the concerns derived from a fear that even a theoretically effective instrument of support for housing for young families can in the Czech environment run aground on a poorly functioning legal system and on the difficulty of evicting rent defaulters (Vobecká et al. *forthcoming*).

II.5 Conclusions

There is only small segment of real social housing in the Czech Republic. Central representation did not introduce any social housing legislation or long-term social housing strategy until now; and the level of new construction of social housing subsidized from *ad hoc* government programs is marginal recently. Municipalities are almost exclusive owners of social housing. Due to decentralization of power municipalities are also free to pass their own local social housing policies; since 2013 they are also free to set their own rental policies. The share of public housing substantially decreased from 39% in 1991 to 8% of total housing stock in 2011.

On the opposite, the share of private rental housing out of the total housing stock increased very quickly compared to the pace in advanced countries, going from almost zero in 1990 to 14% in 2011. Substantial part of stock is owned by institutional and professional landlords and the overwhelming majority of the census-surveyed private rental tenancies are legal, i.e. based on written and properly signed rental contract between landlord and tenant. However, the shift in the meaning and role of rental housing after 1990 is obvious – away from life-long public housing tenure to residual and transitional private rental housing. The German specific “unitary-rental” housing system, which may be viewed as traditionally close to the Czech cultural environment, was not achieved and it seems that potential change of recent trends will take much longer time than expected (especially due to inertia of housing preferences among population).

The use of private renting for a social purpose has already been discussing for at least four years in the Czech Republic. Recently, discussions are held within “complex solution of social housing”, a goal set by the Housing Policy Strategy till 2020 passed by the Government in 2011. The governmental Agency for Social Inclusion already leads a pilot for model of “guaranteed housing”, i.e. allocation of private rental housing among vulnerable (disadvantaged, risky) households when special guarantees are provided to private landlords. The model became part of the Strategy for Social Inclusion, passed by the

Government in 2011. The model of “guaranteed housing” has been discussed on different occasions with many stakeholders, including landlords. We conducted also special focus groups among two possible target groups: homeless and young people at the beginning of their working careers.

Despite of the fact that evaluation of “guaranteed housing” tool among homeless people was not by far unambiguous, the focus groups showed, that involvement of NGOs in the model substantially increases their trust to the programme. The homeless people generally perceive the model as a viable solution of their housing problem, especially young homeless cohort. More doubts were expressed by young people at the beginning of their housing careers – also due to the fact that many of them could gain contract on the free market with no guarantee recently. The model would be helpful for them, if they received longer contracts with rent fixed. Some of them do not believe that good quality flats would become transparently offered under programme because they have a fixed idea that municipal officials and representatives are corrupt and engage in clientelistic practices.

The model appealed also to representatives of landlords, especially private landlords. Many private landlords claimed that if they were provided with guarantee they would not be opposed to signing a long-term lease. However, municipalities doubt that any insurance company would be willing to insure the municipality for a case of the insolvency of tenants and are worried of more problems than benefits because of that.

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III. Hungary: Social housing in the context of the rental sector

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III.1 Macroeconomic trends and welfare regimes after the transition

The political transition had an enormous effect on macroeconomic trends. As a result of the transitional recession, the GDP fell by 15 percent in the first part of the 1990s. Structural reforms (privatisation and bank reform) were complemented with a strong fiscal stabilisation package (1995-98) and the maintenance of sound macroeconomic policies. The economy stabilized by the early 2000s, and by 2001, gross domestic product surpassed the 1989 level.

Hungary's population has been constantly decreasing since the early eighties. Its population today is slightly below 10 million. The average household size was 2.48 persons per unit as measured by the last Census (CSO, 2011), roughly corresponding the European average (2.4 in 2011; EU SILC data). The total fertility rate has been decreasing and reached 1.23 in 2011 (EU SILC data), which is among the lowest in Europe, and exacerbates the ageing of the Hungarian society to a large extent.

In the 1990s, changes in the labour market, due to the closing down of many previously state-owned companies and to the restructuring of the production sector, led to a dramatic decrease of the employment rate. Almost 1 million employees left the labour market, many of whom were pushed into early retirement or became self-employed (forced entrepreneurship). Hungary has one of the lowest employment rates in Europe, as the early retirement system and the generous maternity leave system provides possibility to stay out of the labour market.

During the 1990s poverty became one of the most important social issues: average income has not risen sharply, while income inequalities increased dramatically in the past decades. The net income per capita is 50% higher in the most-developed region than in the two least developed regions. The existence of the informal economy has a dramatic impact on social exclusion. Low income households that have no access to the informal economy and have no family network face the highest risk of poverty. They are affected with more problems like loss of employment, health problems and family problems (a divorce, or the death of an income earner adult). These situations may push them into huge financial difficulties, or even deep poverty. On the other hand, the tax revenue missing due to informal economy (tax evasion) significantly constrains the welfare options of the central government.

III.2 Towards a new welfare regime

The regime change in transitional countries created an entirely new situation, in which real and frequently unregulated market forces and democratic political institutions have radically changed the society. In Hungary, the regime change brought about a complete dismantling of the socialist welfare state; however, the newly emerging elements cannot be characterized as fitting one specific welfare regime model.

[T]he welfare policies evolved in reaction to the social conflicts and tensions, and, step by step, through loosely coordinated measures in the various areas of social life (income benefit programs, education, pension system, etc.) that the new welfare regime built up. There is not a consistent model that would guide the policy solutions in various areas; there is no master mind of the welfare regime builders. This type of 'trial and error' or 'scrambling through' approach was more or less a general phenomenon in the region, resonating with the view of Kasza (2002), who argued that it is not possible to find a consistent welfare system. (Hegedüs-Szemző, 2010)

Intergenerational (interfamily) transfers are a widely used option for helping households or household members in economic hardships (Hegedüs-Somogyi, 2006, p. 202). These transfers tend to be more beneficial for low income households, especially the ones that have access neither to the formal, nor to the informal economy (and risk sinking into deep poverty); but families solely relying on the formal economy are also facing difficulties. Households without recourse to the family network are often unable to pay the cost of housing, and will be forced to rely on illegal income sources.

The social impact of the informal economy³ cannot be ignored in the analysis of households' behaviour. Total social expenditures reach nearly one fifth of the GDP, around the same size as the 'informal economy'. The consequent loss of the tax revenues radically constrains the possibilities of public policy. Accordingly, social assistance payments have to be calculated in a way that they do not cover the living costs of families in need, prompting low income households to find jobs in the informal economy. On the other hand, the government's hands are also tied: at the current scale of informal economy, no tax raises can be introduced in order to increase the scope and size of the benefit programs for the poor, since the economy is already overtaxed. The share of the informal economy also makes general tax cuts difficult, as the government has to rely on the relatively high taxes from its 'secure' taxpayers. (Hegedüs and Szemző, 2010)

Changes in politics over the past decades support the lack of a stable welfare system. Post-transition governments prior to 2010 had the intention to introduce structural changes in welfare provision (e.g. health, education) but invariably failed to realize them. Political competition prompted governments to apply irresponsible economic policies, characterized by short term thinking; and financed them with international loans instead of real economic performance. The recent restructuring of the welfare system has been taking place at an unusually intensive pace, but many of the recent measures leave some doubt as to their long term viability.

II.3 Housing regimes - critical elements of housing

Housing policy developments from 1989 to 2008 included central government efforts and experiences in supporting social housing and the rental sector, various housing allowance

³ According to a recent research report (Buehn and Schneider, 2009) in new member states the size of the informal economy can reach up to 25% of the GDP (Hungary 23.4%, Slovenia 26.7%). Informal transactions are widely accepted today by consumers (receiving no receipt for a cheaper price, which is a VAT tax evasion), by employees (wages paid directly into 'pocket'; 25 percent of all employees are affected), by service providers (tax evasion), etc. (Semjén et al., 2008) We know little about the income effect of the informal economy, but most of the studies support the hypothesis that it increases the income inequalities and poverty (Rosser et al., 2000).

schemes, and launching mortgage financing in Hungary. (Hegedüs, 2013) However, these programmes largely favoured middle and higher income groups, with fragmented attempts at providing assistance to lower income groups as well; and they seem to lack an overall coherent framework. (Hegedüs-Somogyi 2006)

Since the transition, quantitative housing shortage was replaced by a gradually improving qualitative deficit. In the past years, 10-12% of the housing stock consisted of housing units qualifying as 'dwellings without comfort.' Around 100-300 thousand people live in segregated, barely habitable settlements. Pre-fab housing estates have serious structural problems regarding management and state of repair. Some of Hungary's regions have shown significant development and renewal, while housing becomes vacant in declining urban areas and villages at a disadvantage, as inhabitants move away en masse.

Access to affordable housing with acceptable standards (in terms of size and bathroom), and in a location where jobs and services are conveniently accessible, has remained out of reach for a significant share of households. The public rental sector offers affordable housing, but the demand is several times higher than the supply. Private rental costs are too high to be considered affordable, partly because of the legal uncertainties and the subsidy/tax policy. Owner occupation is the main tenure form, but is unaffordable for a significant part of the population.

One of the most important elements of the housing situation is the shortage of social rental housing, as a consequence of housing privatization. The proportion of public rental housing had decreased from 22% before transition to 4% by 1994, and has stagnated ever since. Private rentals make up 4% of the housing stock, giving the entire rental sector a total share of 8%, which is a 'conservative' estimate. Better quality housing has disappeared from the public housing stock, with units in a worse state of repair remaining in public (municipal) ownership, and their tenants have often been coping with multiple social problems. A new element in the public sector is the growing number of vacant municipal apartments, because neither the municipalities, nor the tenants have the resources to renovate them to a habitable level. (In Szombathely, around 300 units out of 2,200 are empty due to the lack of resources for renovation). (MRI, 2013) The public housing supply falls critically short from the level of demand: a conservative estimate puts demand at 300 thousand apartments (8% of the total housing stock), that is, the living situation of this many households would justify their need for accommodation in social housing. (MRI, 2009)

The affordability of housing expenses is a serious difficulty for low-income social groups. More than one-fifth of Hungarian households spend over 30% of their income on housing. (Székely, 2011) The number of households with utility cost arrears has increased to 15-20% of the households between 2008 and 2012.⁴ Around 350 thousand households receive housing allowance in 2013. Housing allowances and rent allowances are structurally separate entities on both the central and the local levels, and currently their significance is marginal. Affordability of access to housing nominally improved since 1998: the average household can now afford 50-60% of the median priced home with a mortgage loan, assuming a 20%

⁴ There is no reliable statistics. According to the statistics based on reports by utility companies the sum of the arrears (electricity, gas and district heating) has increased from 43 billion HUF to 143 billion HUF between 2009 and 2012, the number of the consumers with arrears increased by 2-3 times. (Herpai, 2010; Ordinance of the National Ministry of Development, 78/2012) Although there is no accurate data in respect of the number of indebted households, 15-20 % seems to be a realistic estimate.

down payment (in 2004). In 1999 this ratio was only 20-30%, showing the swift pace of improvement. However, it is still far from the 80-90% ratio typical in Western European countries. Arrears relating the payment of housing loans, rent (in public housing) and utility costs cause a legal uncertainty for 15-20 % of the households.

III.4 Housing policy and innovative approaches after the financial crisis

The effect of the financial crisis of 2008

The housing market changed dramatically after September 2008. The weakening of the Hungarian currency (HUF) increased the mortgage repayments of foreign currency loans, which, on average, grew by 30 to 60%, while banks also increased adjustable interest rates. (HNB, 2011) This inevitably increased the likelihood of payment arrears. The housing consequences of the financial crisis were very much like the symptoms elsewhere (Scanlon et al., 2012; Deloitte, 2012); however, the decline in Hungary seems to have been particularly steep. Housing construction has been plummeting, and only began to recover from rock bottom in mid-2013. Housing market transactions dropped dramatically, despite the sharply decreasing real estate prices. New construction fell by 65% between 2008 and 2011; the number of new building permits dropped by 72% in the same period. The stock of the non-performing mortgage loans (NPL) portfolio increased from 2,6% of the total outstanding balance in 2008 to 12.3% by 2011 (Q1). Besides the burden of mortgage payments, housing cost arrears have been also on the rise in the past years. In electricity, gas service and district heating the total outstanding arrears increased from HUF 43 billion to 143 billion between 2008 and 2012. The number of households with arrears increased as well, and the risk of losing one's tenure security due to indebtedness towards financial institutions and/or utilities has become a widespread issue.

A growing share of the households have taken up mortgage loans, and the issue penetrates the middle class as well - high on the political agenda of the current government - mortgage rescue programs have come to play a central role in the past few years. Many of the programmes have been criticised, nonetheless, most importantly for their possible fiscal effect. In order to avoid borrowing to finance the programmes, the central government decided to levy "crisis" taxes on certain sectors, risking both the shrinking of the market, and later on passing the costs over to clients. The possible detrimental effect is also discussed on indebted mortgagors' willingness to pay their instalments, while they have a reason to believe that they are best off waiting for newer, more advantageous rescue measures.

Innovative approach to housing crisis

As central support to the development of the municipal housing stock was discontinued in 2004, and no other major resource was allocated to replace it, local municipalities were left with an expensive stock, in gradually worsening conditions, no sources to maintain - let alone expand - it, and a dire need for affordable housing, indicated by the number of applications vastly surpassing the available units. Besides some municipalities, a number of non-governmental, non-profit organisations and associations, including churches, have

come up with innovative projects aiming at providing affordable housing to households in need.

Public rental solutions

The most typical version of the public rental is when the landlord is the municipality itself, although in some cases a public company – owned by a local or the central government – can also assume this role. While municipally owned social housing remains the dominant form, a recently established public institution, the National Asset Management Agency (NAMA), has been introducing a new tenancy model with special terms in rent setting, allocation criteria, utility arrangements etc., so they can overcome the constraints that contribute to the depletion of public social housing (and also some constraints that even limit the possibilities of the private rental sector).

NAMC was set up by the Hungarian government with the goal of assisting foreign currency mortgagors whose housing situation was put at risk by foreign exchange (FX) rates soaring against the national currency. The original goal was to buy the homes of defaulted debtors to rent them back to the former owners; however, the target group proved to be huge, and the size of resources allocated to NAMC pushed the company to redefine its role. If the company continues purchasing and renting back homes at its current pace, it will eventually become the most large scale central social housing programme since the transition.

Another interesting – albeit less efficient – experiment is the Social Housing Construction Programme, where the goal of the central government was to order new construction of family homes for families with an overwhelming FX mortgage debt, hoping to boost construction while also helping households' in housing difficulties. However, due to some factors (e.g. building the homes as a green field development, relatively far away from the labour market, and requiring newly built infrastructure), the programme proved to be financially inefficient, while only suitable for a narrow set of debtors.

'LÉLEK-programme' of two Budapest district municipalities, in cooperation with Hungarian Baptist Aid, is another example of recent experimental projects to address housing issues. It houses homeless persons in renovated municipality dwellings. The programme involves complex selection, preparation, and mentoring; the final goal of the programme is to help the selected beneficiaries maintain their housing and hold on to a job autonomously. Accordingly, the programme can only support a small number of beneficiaries, for whom it provides intensive support and social work for a prolonged period.

The municipality of Szombathely, in Western Hungary, introduced 'social accommodation' to manage the situation of heavily indebted households in municipal social rentals living in relatively high cost apartments. In order to avoid eviction, the municipality places these households in lower quality, but more easily affordable municipally owned housing units, thus saving the tenants from homelessness. In return for preserving their tenure security, the tenants have to cooperate in the municipality's programme, aiming at a very gradual debt management coupled with financial support as long as they pay regularly. The beneficiaries also have to cooperate with the family support service of the municipality.

Some practices of social housing through private rental

The private rental sector (PRS) is hardly affordable to low income households; based on landlord interviews for this project, some of those who live in such an arrangement for lack

of a better option might spend up to 60% of their available income on rent and housing costs. Some institutions, however, attempt to create an intermediary tenure between the private and the public sector where the municipality helps the tenants to pay rent, as they have no available housing stock in a habitable state. Some municipalities give rent subsidies to tenants (e.g. Kecskemét, Szombathely), supporting lower income households who can find accommodation only on the private rental market because of the local shortage in social housing. In the meantime, NGOs have been carving out a more defined role in housing, as they launched various projects to help people in need of affordable housing.

'Trambulin' house (Hungarian Baptist Aid) was established as a workers' hostel service by renting and renewing a former worker hostel in an outer district of Budapest, providing low cost accommodation to homeless persons. The house's 158 bed capacity was fully used in one month after opening, indicating a massive demand for low cost accommodation close to the job markets. Its favourable rent, in return for a very simple accommodation, is solely sufficient to cover maintenance; no social work is provided for the tenants.

'Hell's Tower' is the mock name of a large pre-fab housing block in Veszprém, Western Hungary. The dilapidated block was legally turned into a housing cooperative, but became dysfunctional and practically ghettoized by the late 2000s. In order to gain the majority of votes within the cooperative, and with it the right to freely influence its community, the Hungarian Maltese Charity Service started to buy apartments, renovate parts of the building, and reorganise community life in the block. With important external funding (especially from OSI), the charity turned the declining building into a functional community with state of the art public services, intensive social work, and basic homeless care.

Szombathely (Western Hungary) introduced the rent subsidy system in 2008 and provides support for around 100 households with a budget of HUF 20-25 million annually. The maximum support is HUF 20,000 per household (about EUR 70). The municipality sees the rent subsidy to private rentals to be a more effective solution to meet social housing needs than refurbishing the empty rundown units, amounting to 300 units out of the total municipal stock of 2,200. Another city providing rent subsidy is Kecskemét (Central Hungary). The average number of supported households is 80-100 per year, while the municipal housing stock is about 1,600 units. The subsidy is provided for one year, after which it has to be claimed again. The municipality checks whether the household applying for the subsidy actually lives in the apartment. Both cities require the rental contract as a condition, but they do not check whether the landlords are registered with the tax authority, which seems to be a key factor of the success of the rent subsidy in terms of involving private landlords in the system. Similar programs can be found in other cities.

Another remarkable initiative on Szombathely is the local organisation working with the homeless (Savaria Rehab-team), an association owned by the local government whose mission is to provide homeless persons accommodation and employment. The organisation rents on the private market to provide accommodation for clients who are deemed to be able to live on their own; financed mainly from EU funds. They regularly work with a small number of private landlords, who consider them more reliable than tenants coming from the open market; they also mean reliable, long term demand. Usually multiple persons are placed in one rental unit, so they can share costs; the organisation is aware of their possible incomes, and moves clients together if they are able to cover the expected expenses (rent,

utilities, and general costs of living). The organisation also provides intensive social work to help keep its clients on the safe track.

'Life Belt Programme' of the Reformed Church of Hungary aims at helping out families whose livelihoods were endangered by a combination of the crash of FX mortgage loans, and loss of job due to the prolonged recession. The Church provides financial support for the family for 6 (in some cases, 8) months to help find a private rental apartment. The source is church funds and private donations. If necessary, they encourage the family to relocate closer to the labour market, and mobilise their own networks to help at least one adult family member find a stable job. The idea behind the programme was that otherwise well-functioning households should be able to arrange their situation within a few months, if given adequate help. At the time of the interview, however, programme coordinators were only beginning to face the difficulties of discontinuing support at the end of the project period.

A small scale but outstanding example of providing help to households in need is 'Lifeline Foundation for the Homeless'; an NGO that contacts a trusted real estate agency, which provides a list of landlords with currently available inexpensive rentals. These tenancies would be secured very quickly on the free market; however, families with very limited opportunities and no helping social network can obtain them through Lifeline. Due to the low rents, beneficiaries (many of them Roma, and/or at risk of homelessness) are able to stay in these dwellings for relatively long periods.

III.5 Summary of the innovative approaches – constraints

While innovative solutions of public institutions, NGOs, and churches looking to ease the housing challenges of low income households provide some outstanding examples of alleviating the burdens of housing poverty, they have some very substantial limitations.

First of all, they address very diverse target groups with very diverse methods. Many of the cases are complex and resource intensive, both in terms of financial resources and added social work. A long term input is needed for marginalised groups, but even lower middle class families in temporary financial trouble can be very difficult to put back on a safe track without long-standing and consistent help. Consequently, extending the exemplary programmes to a wider target population, successfully using measures that proved to work in one particular setting, and also providing the necessary financial means, could be a very difficult task indeed.

Second, these are public sector or charity programmes, which follow a social mission; however, there are no built-in incentives for the systematic monitoring of their financial performance. While many of them do achieve goals within their possibilities, they face obvious financial limitations, which again constrain the scope and sustainability of their results. On the other side of the same issue, these programmes are covered by (scarce) public funds and private donations, and require no substantial contribution of the beneficiaries. While the social aspect of this approach is clear, some level of contribution of beneficiaries throughout, in measure with their financial resources, could greatly improve the extension and length of such a programme.

Third, many of the projects involve a given amount of financial support, which is later entirely phased out; and according to interviews with social workers, in a large share of such cases the former beneficiaries are unable to cover their expenses. Hence our preference for a solution where eligible households with low or lower middle income are required to contribute from the start of their involvement, but also remain entitled to some level of financial support in the long run.

Moreover, there are important political concerns related to programmes aiming at helping the poor. As long as assistance is very strictly means tested, only the poorest are eligible. Once the threshold is raised, a disproportionately larger share of the population will become eligible, and decision makers may be concerned by the possibility of the social budget getting out of hand.

Finally, there is also a constraint on the side of the organisations in the current structure of social provision. While they do have vested interest in achieving social goals in their current framework, due to the institutional structure and financial incentives of the social organizations they do not have interest in, nor the resources for, organising their achievements in a larger – preferably national – network. They have locally limited innovative solutions, but no motive to expand them onto the national policy level.

III.7 An overview of the private rental sector⁵

Structure of private rental sector, and typical landlords and tenants

Reliable data is very scarce on the size of the private rental sector. Private rentals could take up 8-10% of the housing market in Hungary, but due to tax evasion, there is no reliable information about the correct size. The sector is dominated by accidental landlords: a large number of home owners rent out an apartment they inherited or bought for investment purposes; and many people rent out a room within their apartment (many of them to friends, family members, or other reliable contacts, rather than advertising on the open market). Professional landlords have been on the rise though. On the one hand, slightly people who invest into rental on the small scale, who maintain 2-10 rental apartments for a living. On the other hand, some of the developers who could not market their units after the crisis rent them out. In interesting case that emerged in an interview was that of an entrepreneur in Nyíregyháza (Eastern Hungary), who built apartment blocks to sell the units. When he could not find buyers, he started to rent. He also created a rent-to-buy scheme, where renters pay higher than market level rent, and after five years their additional payment is converted into a down payment for a mortgage loan. This construction also allows the landlord to profit from a 5 year central government subvention for rental construction.

The typical motive for renting out is investment, although predominantly on the small scale: natural persons often buy real estate so their savings do not inflate, and rent out to cover expenses on the side. Semi-professional and professional landlords, on the other hand, look to make a reasonable profit beyond retaining the value of the property.

According to survey data, the low income households and the higher income households are over-represented in the private rental sector (U-shape distribution), but the differences

⁵ This part draws on Hegedüs-Horváth-Tosics, 2013.

according to income groups are not significant. According to the family type, young households without children are overrepresented. (Székely, 2011)

While the small high-end market (for well-off households and foreign expatriates) may be functioning fully legally, the majority, housing those with no other options, is informal. Interviews with local social workers, housing policy makers and housing entrepreneurs supported the residual nature of private rental: when low income households lose their property or social tenancy because of financial difficulties, they often end up in the low-end of the private rental sector, with a rent level and utility costs overburdening their already strained budget.

Legal framework and institutional setup

In Hungary, the legal framework of private rental initially reflected the demand for free market; it is essentially liberal, and large parts of the regulations are of a dispositive nature (up to parties' agreement). Due to financial and legal constraints, the sector could not expand considerably, although the framework – a functioning market economy and rule of law – were established. Besides the flexibility of the pertaining regulations, the law also seems to be largely unenforced.

There is no obligation to register tenancy agreements with tax authorities, and the majority of landlords avoid tax payment. In certain cases, they do so despite the conclusion of a tenancy contract, in other cases by pretending that they are transferring the use of their apartment for free, although both options entail high risks in case of a dispute among the parties. In order to avoid tax payment, landlords sometimes conclude a contract for “free” use of dwellings, in which case the rights and obligations of the parties are completely unregulated. In case conflicts over the “free” use of dwellings end up in legal disputes, lengthy procedures can be expected. At the end, the dissimulated tenancy agreement will be considered according to its intended purpose, and the landlord may face criminal procedures for tax fraud.

Real estate agents are important actors in the market. In the beginning they were present in the high-end market (typically for foreigners), but their role seems to have expanded – although no reliable information is available about their weight on the market. Based on interviews with real estate agents, we can conclude that they typically do not take formal responsibility for the risks entailed to tenant selection – they do not compensate for non-paying tenants. They could, nonetheless, feel a kind of personal responsibility (although strictly on an informal level), and might consequently offer a new tenant without compensation.

There were several attempts on behalf of real estate agency organisations to introduce a blacklist of ‘bad tenants’, but as it violates the privacy law, this kind of list remains informal, limited to a number of agents that share their negative experience regarding a set of former tenants. A typical risk management strategy of accidental landlords is to rent the apartment to people within their personal network – after a friend or relative gives some sort of a good reference) at below-market rent level. (Erdősi et al 2000)

Main risks and typical landlord-tenant conflicts

The rent is not regulated, it is entirely up to the parties' agreement, as are changes in the agreed amount of the rent. This leads to a very flexible market, where both tenants' incomes

and the costs related the tenancy can be very unpredictable. This is crucial for the tenants, whose transaction cost (the cost of moving apartment) may be substantial, and this in itself could curb the demand for private rental. As regards the landlord's interests to provide for gradual increases corresponding to the inflation rate, no legal solutions are provided. The unpredictability of the future rent may thus affect the stability of tenancy relationships.

Parties are also entirely free to decide on the duration and possible prolongation of the tenancy contract. The enforcement of the termination of contracts for an undetermined period may entail significant risks for the landlord. Therefore they typically prefer to conclude short term tenancy contracts, to minimize the risks arising from lengthy judicial execution (eviction) proceedings to terminate the contract and evict the tenant in the case of non-compliance. However, this means that private rental tenancy cannot be considered a secure tenure form.

The tenancy relationship may be terminated for several reasons; in practice, the most important cause is non-compliance. The difficulties of enforcement and eviction procedures represent a great risk for the landlord in particular in case the tenant refuses to pay the rent or damages the dwelling. The Housing Act provides that the landlord has the right to terminate the contract in case the tenant refuses to pay the rent, behaves in an intolerable way or otherwise breaches the contractual obligations. However, this right only gains effect if the landlord is in a position to enforce his right to evict the tenant after the tenancy agreement was terminated. Under Hungarian law, the tenant is entitled to the protection of his possession against everybody, including the landlord. Consequently, the landlord is not entitled to take direct action, and risks being convicted for vigilantism if they attempt to assert their right to their property. The rightful way of enforcing the termination of a tenancy agreement is by means of judicial procedures. In principle, this procedure is swift; however, measures serving the protection of tenants could prolong it for up to two years, for which the landlord cannot lawfully reclaim their property.

Responsibility for utility arrears (namely arrears in electricity, gas, heating, water service fees) is a crucial element of the tenancy relationship. The basic dilemma for the parties is: who will have a contractual relationship with the service provider: the landlord or the tenant? Very often, though, the landlord will end up having secondary liability for utility costs. Eventually, changing the contracts with the service provider may entail more risks than advantages for the landlord: they lose control over the regularity of the payment by the tenant, while maintaining the final liability in the case of non-payment.

A further considerable risk factor on the landlord's side is the possible damages to the property because of the misuse of the apartment by the tenant. This is particularly problematic in view of the difficulties to enforce the termination of the tenancy contract as described above.

On the other hand, typical problems include the deception of the tenant by the landlord regarding the characteristics of the dwelling; the landlord avoiding responsibility for maintaining the adequate quality of the dwelling; and frequent controls of the dwelling by the landlord, disrupting the undisturbed use of the dwelling by the tenant.

Under Hungarian law, registration of a new address (permanent address or place of residence) is compulsory within three days of moving residence. Registration does not entail new rights or affect existing ones regarding the use of the dwelling; instead, the address card

issued by the local authorities is necessary for handling the majority of the tenant's administrative issues, including the request of allowances or local services. However, landlords often refrain from consenting to the registration of tenants, for tax evasion purposes as well as due to their concern that the former tenant would fail to register their new address after moving out from the dwelling.

III.8 Managing the risks

The consequence of the under-regulation is that there is a broad range of possible disputes between the landlords and the tenants. It would be the task of the court system to arrange the conflicts, but if it does not work efficiently, the parties of the dispute will turn towards other solutions, introducing other intermediary actors (like real estate agents, debt-collection companies, etc.). Disputes arising from tenancy contracts are handled by the civil courts according to the general rules of civil procedures. Despite the legislative efforts to limit the possibilities to unduly prolong such procedures, their length is still not predictable for the parties and may take several years.

Under these circumstances, the dispute-handling mechanisms cannot be considered effective enough to compensate for the under-regulation of tenancy regulations and favouring long-term tenancy agreements. Indeed, the areas where swift and effective judicial and enforcement procedures would be most needed are the enforcement of the termination of the agreement and the subsequent eviction procedures. As long as such mechanisms are not available, both the tenants and the landlord try to manage the risk involved in the rental contracts by other, often informal means, but the solutions developed in practice cannot override the negative effects of under-regulation.

Some solutions to such disputes are not outright illegal; however, they are disputable. Landlords usually demand a pre-paid rent guarantee to secure themselves against non-payment, generally at the amount of 1 to 3 months' rent. This also acts as a filter for the possible tenants: lower income households are often unable to save up for multiple months' worth of rent.

Regular control of the tenant's behaviour (payment and state of the dwelling) is another important part of risk-management, which is not easy to manage for accidental landlords. However, in the case of a professional investor it is crucial to employ full-time staff to collect rent, regularly control due payment of utility, and ensure the proper use of the apartments. These enforcement mechanisms, however, are often doubtful as they may involve the use forms of force or threats.

Due to the risk of extremely lengthy procedures, landlords do occasionally choose to use direct or indirect forms of threat to convince their tenants to leave the dwelling (like discontinuing the utility services, removing the door or windows etc.). A more rightful and elegant solution is the conclusion of the tenancy contract in front of a notary public, making it directly enforceable. However, the services of notaries public are expensive.

In view of the legal obligation of the tenant to register, and his rightful interests to use local services, the denial of the landlord's agreement to the registration represents a misuse of right and could as such be attacked before the civil courts. This is however a merely

theoretical option, not only because of the length of procedures, but because the tenant may be afraid of retaliation in the form of termination of the contract or rent increase. It is more common for the tenant to enforce the landlord's agreement by envisaging a declaration to the tax authorities. As of the beginning of 2013, the rules regarding registration were amended: the agreement of the landlord is no longer necessary if the tenant can prove by means of an appropriate act that he is entitled to the use of the dwelling. The modifications also foresee that the registered address is invalid if the right to use the dwelling no longer exists by virtue of the relevant agreement, thereby easing the burden of proof of landlords in case of expiry or termination of the tenancy agreement. In case of a valid tenancy contract, these amendments certainly represent a positive step to resolve the conflicts over the registration of tenants.

III.9 Overview of private rental sector and related risks

We can conclude that the private rental sector represents both a market failure and a policy failure: the development of the sector is limited by both financial and legal constraints, and the regulatory framework does not encourage the smooth functioning of the market, where supply meets demand in a close to optimal way.

On the one hand, no efficient institutions were developed to manage the most typical risks of the market. On the other hand, the taxation and subsidy policy provides generous support to ownership, some support of social housing, but virtually no financial help for market rent: it seems as if policy makers still considered private rental as an exclusively high-end market good that needs no further subvention, instead of a possible means to alleviate the situation of lower income households with no available social housing. Furthermore, the cost of legal conflict management and slow judicial procedure make private rental a more expensive tenure choice, thus excluding the groups that face difficulties financing their own property.

Regarding the legal side, we do accept the arguments of those who warn about the risks of over-regulation. While under-regulation leads to the conflicts described above, over-regulation could be just as harmful – if not more so – to the sector. Instead, we support the solution of gradually introducing dispositive rules that address the typical conflict situations that would apply in lack of a different agreement between the parties.

As for the financial constraints; in order to support the development of the PRS towards a more flexible and reliable setup, we propose the introduction of a tenure neutral housing tax and subsidy system, that does not discriminate to the advantage of ownership against the rental tenure. This policy could hurt middle class interests, and this is the reason decision makers are often reluctant to move in this direction. In Hungary, it would mean either the introduction of imputed rent, that is, taxing owner occupation (placing a burden on the middle class); or using tax revenue to compensate the actors in the rental sector for their overburden.

III.10 The proposal for SRA in Hungary

On the one hand, there is a pressing – and unanswered – need for affordable rental housing in Hungary: while the demand for social rental is multiple times the number of available units, local governments keep downsizing their housing stocks. On the other, there is a significant number of privately owned, vacant dwellings, which remain empty due to the risks attributed to private sector renting. This provides an opportunity to alleviate an important part of housing related social tensions.

We propose the establishment of Social Rental Agencies (SRAs), coordinated by a central organisation (a 'National Housing Association'), whose goal would be to connect the unused housing stock with the demand through managing the risks associated with the private rental sector. The idea is that the local SRA rents out apartments from private landlords, for a fee slightly below market rent. In return, the SRA provides guarantee towards the landlord for rent payment and the state of the dwelling. With the help of the moderate rent levels, coupled with local and central rent/housing support, the SRA then provides affordable rental housing to low income target groups on a larger scale. This will require a number of changes in the legal framework, meaning modifications currently elaborated by MRI,⁶ together with the various possible management and risk sharing models of SRAs. The suggested central and local government subventions mostly derive from a restructuring of already existing types of financial support. Some complementary services – especially an independent monitoring organisation to assess the state of the dwellings, and a dispute management body – will have to be established.

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⁶ MRI undertook interviews and focus group meetings with local policy makers, social workers, and private sector landlords in 2012 and 2013. Our goal was to establish the need for additional affordable housing through SRAs; and their feasibility in four primary cities, and a number of second tier cities; we also discussed the possible models with local and national NGOs, and representatives of the National Asset Management Company. While our findings to date indicate that important and complex modifications are required in the legal framework related to social/affordable housing, we also registered a wide-spread support for the idea, on behalf of social providers as well as landlords. Although an advanced and truly large scale national SRA network could only be feasible on the longer run, the first steps of establishing such a network could begin in the near future, based on already existing (local and central) structures and regulations. On the basis of this research, a policy proposal will be prepared by October 2013, together with three possible pilot projects to be launched early next year by partner organisations.

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IV. Poland: Regulations in the Area of Apartment Tenancy and Perspectives of Rental Housing Development

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1.1 Introduction

The housing situation in Poland is a significant developmental barrier in the scale of individual experience of people, in particular young and/or poor people as well as in the social and economic scale. In the period of transformation, market reforms of the system of financing housing, production of building materials and execution, services surrounding housing industry were conducted. The market dominated the ways of satisfying housing needs. Often, in particular in rural areas and small towns, people have their houses built on their own account by employing specialists to perform particular types of work. In big cities, people usually use the services of developers.

When we discuss housing problems, those areas of economy are critically assessed that are a subject of housing policy as a part of the wide social policy. Here, the failure to adjust the level of housing development to the needs observed after 1989 is a consequence of:

- low position of housing issues in the policy of the state;
- variability and briefness of programmes of financial, institutional, and legal support for housing issues with preferences for the sector of privately-owned apartments.

The effect is the quantitative deficit of apartments in the sector of available apartments and the low level of housing conditions. The effective deficit of apartments is variously estimated – from 0.7 to 1.5 million apartments. From 130 to 160 thousand apartments per year were released for use in the last several years. In 2011, substandard apartments still accounted for as many as 10.6% of the general number of inhabited apartments (15.9% according to the 2002 National Census)⁸. According to EUROSTAT, the situation of a serious housing deprivation in Poland concerned 15.2% citizens in 2009 and 11.4% in 2011. For the entire EU-27, these percentages were 5.9% and 5.5%⁹, respectively. Overpopulation of apartments is one of more significant factors of housing deprivation.

In Poland, there is a weak non-government sector activity in favour of making available of a dwelling to social groups particularly exposed to housing deprivation and in favour of controlling of public authorities activities in the area of housing. On the other hand, the basis of scientific papers on housing policy and economy is gradually expanding (Cesarski, 2013).

Data from the National Census of 2011 indicate that among 12.53 million inhabited apartments in Poland, 1.61 million, i.e. 12.9%, belong to the institutional, public rental

⁷ In collaboration with Habitat for Humanity, Poland.

⁸ Apartments – The 2011 National Census of Population and Housing, Central Statistical Office, Warsaw, 2013.

⁹ EUROSTAT, 2013, [ilc_mdho06a]

sector¹⁰. There are only estimates concerning the resources of the private rental sector in Poland. These are primarily apartments owned by physical persons, the so-called second apartments, not currently inhabited by their owners and rented on the market. Classic rental tenement houses, built before the Second World War constitute an insignificant category. In practice, no new tenement houses are built for rent. The gray economy of the private rental market is significant, in particular in big urban agglomerations and university centres. The total number of apartments rented in the private sector is estimated to be from 660 thousand to 1 million, including the cooperative-owned apartments (see the *Diagnosis...*, 2005, *Mieszkanicznik*, 2013).

The reasons for the weakness of the rental housing sector in Poland have been well diagnosed (Lis, 2011, Muzioł-Węclawowicz, 2013, Cesarski, 2013). In the public sector, the main factors included the deficiency of funds at the central government and local government level as well as the lack of consistent policy of supporting the development of the social rental sector. In the private sector, it is the lack of effective pursuit of proprietary rights, i.e. high legal risk. Protection of tenants' rights is considered excessive, in particular in the context of the practice of procedures of courts making decisions on eviction. These take a very long time and the tenant with an eviction sentence may continue to occupy the apartment while waiting to be granted social or provisional premises. The right to social premises includes a wide spectrum of tenants, who are protected regardless of their income situation. In these conditions, no wider research of the financial potential of the private sector in the scope of housing construction for rent is conducted. Many other investments offer a better return rate and a much lower legal risk.

Views and attitudes of the society on rental housing are a significant factor. The common opinion that it is only the ownership of an apartment that guarantees that housing needs will be satisfied is deeply rooted. At the same time, public property is not respected. Failure to timely pay the rent due for the "public owner" and various strategies of benefitting from the fact of occupying public apartments are socially accepted.

Social stigmatisation due to occupying apartments in the public sector is still not very intense in Poland. It results from a strong mixing of social-income structures in housing estates inherited from the socialistic allocation policy and the lack of real alternatives – for majority of citizens – of a change of their own housing situation.

Local governments systematically rationalise their policy of managing communal housing resources. However, the increase in the number of rental apartments in public resources (communal, commune-owned, social and resources of social housing associations) is very low, far insufficient in relation to the needs. Communes are not financially supported by the state in the development of social housing programmes.

It is estimated that approximately 60% of young people with unsatisfied housing needs have income that does not allow them to purchase a privately-owned apartment and they should be served by the social housing sector, at least at the beginning of their housing career.

¹⁰ Source: Apartments – The 2011 National Census of Population and Housing, Central Statistical Office, Warsaw, 2013. This category includes apartments owned by communes (1.09 million), State Treasury (0.20 million), enterprises (0.20 million), social housing associations – TBS (0.08 million), and "other entities" (0.04 million). This does not include 0.36 million cooperative-owned tenant apartments (often regarded as rent flats in comparative papers) and apartments of unspecified ownership (0.60 million).

1. Regulations Concerning Rental of Apartments

Significant changes to legal regulations on renting were introduced in 1994 by liquidating the centrally set rates in public sector of the rent and introducing the rule stating that the regulated rents include statutory situations only, i.e. public housing. The regulated, set by local government authorities, rates of the rent temporarily also covered – by 2004 – apartments in private rental tenement houses included in the public premises management until 1989. This resulted in multiple conflicts and court trials. It was also one of the reasons for the crisis in the private rental sector. In spite of the fact that designs on controlling private rents did not include newly-built private rental housing.

The current rents for renting apartments in Poland are unregulated, the rules for increasing the rents are regulated – not more frequently than twice a year, a written form, the necessity for the landlord to justify the reasons of the raise in writing – on demand of the tenant – in the case of rates exceeding 3% of the replacement value¹¹.

The debate over the necessity to modify forms of protection of tenants has been on in Poland for several years. The point is to expand the autonomy of public owners of housing premises (mainly local governments) in execution of their property rights and to liberalise the tenancy contracts. In 2005, in the draft “Strategy of the Long-Term Development of the Housing Sector between 2005 – 2025”, it was suggested that changes be introduced in the regulations of the Law on Protection of Tenants’ Rights that would aim at obtaining a balance between protection of the rights of tenants and respect for property rights, making it possible to set the legal framework of tenancy directly between the tenant and the landlord (Strategy, 2005, p. 39).

The government programme entitled “The Main Issues, Objectives, and Directions of the Programme of Supporting Housing Construction Until 2020” in force from 2010 considers changes to the rules regulating the apartment rental market as one of the main tasks. The following activities have been specified:

- a change in the definition of the commune-owned housing resource;
- making it possible for communes to conclude tenancy contracts for a specified term;
- introduction of the obligation to use the economic rent (covering at least the real estate maintenance costs) in public resources;
- subjecting the right of the tenant being evicted to social premises to court’s decision (departing from the statutory catalogue);
- enabling the owner, for social reasons, to indicate another premises to an authorised tenant; limiting the rights to housing allowances to users of rental apartments.

These legal changes were scheduled for 2011. The problem is that in mid-2013 work is still being conducted at the level of government discussion on the assumptions to the draft of the law. It was additionally suggested that the programme of social premises be replaced with the programme of the social rent. The rental rates, and not the legally defined type of the premises, will set this special area of satisfying housing needs of the poorest and evicted people who should, for social reasons, keep on benefiting from social support (poor families with children, sick people, etc.).

¹¹ Separate regulations regulate rents in TBS resources where the rents, upon the moment of inhabiting the apartment, may not exceed the rate of 4% of the replacement value per year.

These proposals were widely supported by self-governments and experts. However, there is no political determination to introduce the reform of tenancy relations. This seems to result from the general lack of interest of the government in housing issues and from concern for political consequences of regulations violating the interest of over 10% of voters.

On the other hand, two statutory changes were introduced and initiated prior to the announcement of the 2010 programme.

In January 2010, occasional tenancy¹² was restored in the legal system. The purpose was to stimulate the market of housing premises tenancy and to limit the gray economy, i.e. to increase the state budget earnings from the tax on revenues from tenancy. Occasional tenancy is not subject to the regime of numerous regulations of the Law on Protection of Tenants' Rights, it can only be conducted by physical persons who do not run business in this scope. Occasional tenancy contracts are concluded for a specified period not exceeding 10 years. The obligatory attachments to an occasional tenancy contract include the tenant's statement of execution, in the form of a notarial deed, and obligation to vacate and release the occupied premises upon termination of the contract, and tenant's indication of other premises to which possible eviction can be conducted. The earnings from the rental of premises in the form of occasional tenancy may be subject to a lump-sum tax or to general taxes. The lump-sum tax rate is 8.5% on earnings. In the case of general taxation, the rate depending on the total income of the taxpayer is applied (currently: 18% or 32%) upon deducting costs related to the renting. In accordance with information provided by tax services, in 2012 taxpayers submitted 342.9 thousand tax returns revealing lump-sum earnings from a contract of tenancy, sub-tenancy, lease, sub-lease, or other contracts of similar nature, however, this does not refer to residential premises only (Information..., 2013). The average earnings per one taxpayer in this scope was PLN 9.7 thousand.

Another change, in force from the end of 2011¹³, obliged communes to separate provisional rooms from the housing resources that will be designated for rent to evicted people without the right to social premises. This regulation specified the situation of eviction of people due to domestic violence, illegally occupancy or disturbing house rules – these people are evicted directly to night shelters. In another situation, the evicted people can be directed to the provisional rooms for the period of 1 – 6 months. These rooms can offer a very low standard but they provide a shelter for the time of looking for a new dwelling.

The aforementioned concept of policy of 2005 included the proposal to develop and start the programme of support for private investors building apartments for rent. As a part of creating the resource of apartments available for rent, the starting of the new programme of financial support for private investors building apartments was predicated on condition of retaining the objective of apartments for rent for several years and maintaining the rates on the level adjusted to the possibilities of low and medium income households throughout this

¹² Occasional tenancy was introduced by the Law of 17 December 2009 amending the Law on Protection of Tenants' Rights, Housing Resource of Commune, and amending the Civil Code, and amending certain other Laws (Journal of Laws of 2010, No. 3, item 13).

¹³ Provisional rooms were introduced by the regulations of the Law of 31 August 2011 amending the Law on Protection of Tenants' Rights, Housing Resource of Commune, amending the Civil Code, and amending the Law – Civil Proceedings Code (Journal of Laws of 2011, No. 224, item 1342).

period. Had these solutions been introduced, we would have dealt with favourable bases for programming activities of social housing agencies on the supply side.

1.2 Conditions of Rental Housing

Apart from the clear lack of legal changes in the area of regulation of tenancy relations, the lack of funds for financing housing for rent is the basic barrier for the development of the public housing sector. In 2009, the National Housing Fund that granted preferential loans to social housing associations (TBS) for construction of social rental apartments was liquidated. The public Bank Gospodarstwa Krajowego (BGK) continues to provide financing for the applications for investments qualified up to 2010. BGK has also introduced its own, not financed with the funds of the state budget, programme of semi-preferential loans and the programme of issuing bonds for the purposes of social rental building. These possibilities, however, are only available for individual, financially sound TBSs or other communal companies.

The programme of financial support in the scope of creating social premises, protected apartments, night shelters and houses for the homeless is operating. Its purpose is to extend the resources of premises and rooms used to satisfy the needs of the poorest and communes are its main beneficiaries. However, due to budget difficulties of communes and the state budget, the programme brings moderate effects. Since 2007, BGK has provided over PLN 300 million of support for execution of nearly 600 projects the total value of which exceeded PLN 1 billion. Nearly 10 thousand residential premises (social, protected, and communal) and nearly 900 places in night shelters and houses for the homeless were created. In the spring edition of the programme in 2013, applications of 60 communes for execution of social or communal apartments and 2 applications for night houses or houses for the homeless were qualified for subsidising. The 2013 state budget predicted PLN 90 million for two editions of this purpose.

The fact of reserving the above-mentioned amount of PLN 90 million in the state budget as a part of the Subsidy Fund for 2013 for supporting social rental building and, at the same time, the amount of PLN 950 million for subsidies to the interest on loans contracted for purchase of the first apartment is the measure of the government policy preferences. Transfers of funds in the annual state budgets are more and more in favour of supporting the ownership sector.

In relation to the market of private tenancy, the government proposes two new solutions to increase the fluency of tenancy. Firstly, the aforementioned assumptions of the Law amending the Law on Protection of Tenants' Rights mention introduction of occasional tenancy also for the landlords – legal entities. Secondly, the currently proceeded legislation of the new government programme supporting the purchase of the first apartments by young people¹⁴ predicts the possibility of extending the subsidy also to situations when young

¹⁴ People up to 35 years of age could obtain a subsidy to increase their own contribution when purchasing new apartments on the primary market with a mortgage. The subsidy would amount to 10% of the costs of the apartment or 15% if a family has a child. A third child in the family would result in an additional benefit in the form of repayment of the loan reflecting 5% of costs. The programme is to replace the "Rodzina na Swoim" (A Family on Their Own) programme closed at the end

people, not having funds sufficient for purchasing an apartment, will use the apartment renting it from the developer for some time, before purchasing it with the governmental support.

It is obvious that these two solutions favour developers facing the phenomenon of a weak demand for their apartments. But the new, planned programme will satisfy the purposes of social housing policy to a small extent. Simply because it does not specify the income thresholds for subsidy beneficiaries and, at the same time, the beneficiaries are cut off from cheaper apartments (purchase on the secondary market, independent house construction)¹⁵. There is a pretty large group of people in need in the lower income range who are not the recipients of any support programme in spite of the fact that they form a classic group of housing policy beneficiaries. This refers to people with income too high to qualify for social tenancy but too low to reach out for a mortgage.

The self-organisation of the circles of people renting apartments on the private market is an interesting process. The national Stowarzyszenie Właścicieli Nieruchomości na Wynajem - Mieszkanicznik¹⁶ (Association of Owners of Real Estates for Rent) was established. Its mission is to civilise the private tenancy market by establishing and publicizing new rental standards (contract specimens, ethical standards), create platforms of exchanging know-how and experience, persuade the existing businesses to create specialised services for the sector of private rental of apartments. The Mieszkanicznik Association conducts modern activities (Internet, congresses, training) and has a positive programme for its stakeholders. Many organisations of the owners of rental property, established earlier, are oriented mostly at the lobbying and protection of own interests.

The majority of communes, in particular in big cities, have departed from the policy of promoting privatisation of communal apartments by price discounts. Excluding particular categories of apartments from privatisation, e.g. new or modernised, resources, of apartments in historic buildings, is getting more and more popular. The pressure of communes paying compensations to owners of real estate occupied by tenants with eviction sentences that have not been enforced due to lack of social apartments available for rent to those people results in a situation where communes focus on the segment of social apartments in their housing investments. Then, they do not have the potential to invest in new communal apartments or TBS apartments.

The opposite preferences can be observed in the government policy. In 2011, the Law on Rental Social Apartments and TBS was amended to enable – under certain conditions – privatisation in favour of tenants of apartments constructed as a part of the programme of social rental building. So far, the solution has been used by people inhabiting the resources of housing cooperatives based on the housing tenancy right to the premises in which softer apartment purchase conditions have been established as compared to tenants in TBS resources. At the end of June 2013, not a single apartment in TBS resources had been privatised. Due to regulations on unjustified public aid, associations selling apartments to

of 2012 in which young people would obtain support in the form of repayment of approximately 50% of interest on mortgage for 8 years. The new programme is scheduled to commence at the beginning of 2014.

¹⁵ The legislation establishing that programme is under consideration, some details may have change. For example, recent plans foresee some forms of support for young couple constructing the moderate size house by themselves.

¹⁶ The „mieszkanicznik” is a new word equivalent to the English “landlord” which has no equivalent in the Polish language.

tenants at market prices would have to return their profit, i.e. the difference between the market price upon selling and the construction costs, to the state. In this situation, neither communes as owner of TBSs, nor TBSs managing the apartments have the economic interest in privatisation of social rental apartments. Many oppose this for ideological and social reasons. Not discouraged by this, the ministry in charge of the housing policy announces amendment of regulations leading to facilitation of the sales of social rental apartments.

Proposals included in the long-term strategic programmes of the government and its current policy are getting further and further apart (Muzioł-Węclawowicz, 2013). All long-term strategies concerning the regional sustainable development, labour market development, promotion of parenthood mention the need to “increase public funds for housing policy with simultaneous balancing of its development between privately-owned housing and housing for rent”¹⁷. For instance, the draft *Strategia Rozwoju Kapitału Ludzkiego 2020* (Human Capital Development Strategy 2020) proposes development of social rental building as the remedy for low availability of apartments, particularly apartments for rent, in the centres that generate jobs and for postponing the age when young people become independent.

The current activities of the government, however, go in the opposite direction. Neither the government nor the Parliament initiate any programmes supporting rental housing construction, both social and private. In spite of the fact that experts unanimously state that involving private capital in building (apartments) for rent is necessary. Another potential growth instrument of the rental sector – public-private partnership – encounters legal-financial obstacles. The amendment of the Law on public financing in the scope of settlement of accounts of PPP projects is recommended so that remuneration for the private partner will be regarded as current and property-related expenditures. Without this solution, popularisation of the PPP formula and, by the same token, the use of private capital in execution of public services to a large extent seems unrealistic (Herbst, 2013).

The aforementioned new programme of subsidising purchase of apartments was not an element of the applicable programme of the housing policy. The general opinion is that the programme offers more support power to developers surprised by the growing number of vacant apartments (not present in housing turnover in Poland prior to the crisis of 2008) than to the function of increasing the availability of apartments. From the point of view of society, creating a support programme for people having the potential to satisfy their needs on the market (meeting the condition of loans worthiness) in a situation when financing loans for TBSs¹⁸ have been abandoned and there are no support programmes for people with low or very low income for whom market ways of satisfying their housing needs are in fact unavailable is primarily doubtful. Self-government and TBS circles have come up with the initiative of changes in allocation of public funds scheduled for the *Mieszkanie dla Młodych* (Apartment for the Young) programme. Between 2014 and 2020, state budget expenditures for this programme, at the level of PLN 8,9 billion, would be equally divided between the programme of subsidising purchase of apartments and the new formula of subsidies for TBS projects. It would enable execution of around 13 thousand apartments per year under the *Mieszkanie dla Młodych* programme and around 10 thousand social rental apartments under the TBS formula.¹⁹

¹⁷ The Long-Term Strategy of Development of the State. Poland 2030. Third Wave of Modernity (p. 99).

¹⁸ Formally, the statutory regulations still impose the obligation to finance social rent housing construction on the state.

¹⁹ Resent ministerial information mention much lower public budget for this programme.

1.3 Conditions for Including the Private Tenancy Sector in Social Housing Programmes

Social Housing Initiatives

Social activity, determination, and cooperation of social services and other self-government bodies with the non-government and private sector are the basis of such initiatives as social rental agencies. Initiatives aiming at satisfaction of housing needs of groups that are particularly sensitive to housing exclusion take advanced organisational and financial forms. However, these are individual activities which are not statistically significant.

Programmes executed in Stargard Szczeciński by the local TBS are the example of using the social rental building programme to create a local offer of rental apartments for orphans (children leaving orphanages), disabled people, seniors. The TBS functions as the operator of the “housing” part of the programme. Sponsors and NGOs are in charge of financing and support for over-standard functions (medical care, shared rooms, furniture).

The idea of a social housing agency is in a way realised by Habitat for Humanity. However, it does not function as the apartment renting operator but it helps individual people build and inhabit apartments which are ultimately to become private property. At the same time, it builds financial capital supporting construction of more apartments.

Nasz Dom (Our House), with long traditions, supports family-type children’s homes. It conducts fund-raising campaigns for housing-community support for children. It has helped create 95 new family-type children’s homes. It runs its own homes for children – in Wrocław, Kraków, Przemyśl, Mrągowo, Ustka, and Słupsk – that act as a model of the modern, home-based, institutional care for children and youth. Towarzystwo Pomocy im. Św. Brata Alberta (St. Albert’s Help Association), CARITAS church organisations, Sieć Pomocy Barka (Barka Support Network) specialise in housing support and stimulate self-support and vocational activity of homeless people and people endangered with homelessness by cooperating with regional self-governments and/or other NGOs.

The formation meeting of the Ogólnopolskiej Federacji na Rzecz Rozwiązywania Problemu Bezdomności (Polish Federation for Solving Homelessness Problems) was held in Łódź on 7 June 2013. The purpose of the new organisation is to prevent and alleviate the results of poverty and social exclusion of people endangered with and experiencing homelessness by stimulating and supporting cooperation of all parties involved in helping homeless people in Poland and influencing social policy in the scope of solving the homelessness problem. Ultimately, the Federation is to unite NGOs helping homeless people and self-government units, research centres, and other organisations involved in the process of helping the homeless or otherwise related to the issue of homelessness. Initiators of social rental agencies should be looked for among those organisations.

Legal Conditions

The existing legal system does not offer solutions regulating operation of social rental agencies understood as public organisations acting between owners of apartments and people who need housing support qualified as social tenants. Acting between these parties can be understood as “tenancy – sub-tenancy” relations, assuring guarantees of proper

standards of renting apartments to their owners, and institutionalised care for social tenants who rent apartments on their own.

The applicable housing regulations allow for the formula of renting and sub-letting apartments. Communes may rent housing premises from investors and sub-let these to tenants from their lists of people who qualify for housing support of the commune. Such contracts are concluded for unspecified time (premises of the status of communal rental apartments, TBS premises) or specified time (social premises). The rate for renting and sub-letting, as well as the manner of payment, are regulated by contracts. In the private sector, acceptability and rules of sub-letting of apartments are regulated by contracts.

TBSs, renting apartments to communes that further direct people from their housing queues to these apartments, in fact act as a social rental agency. Their partner contracts with communes, apartment rental procedures, schemes of financial settlement of accounts may serve as models for agencies established by other entities.

Availability of Apartments for the Formula of Social Rental Agencies

Availability of apartments for the needs of rental agencies is highly problematic. The current formal and informal rental market manages all apartments for rent. Where rates for private resources are significantly (even several times) higher than the rates for public resources, a possible increase in the supply of rental apartments would be totally managed in the system of traditional tenancy. In the biggest cities, both focus of demand on rental apartments rented based on arm's length principle and on social apartments is observed. It is obvious that economic and mental reasons favour the standard private rent in the competition for premises.

It seems that at the time being in Poland, the initiatives concerning activation of social rental agencies are bound for failure or – in the best case – for marginalisation due to lack of apartments to be used in the system without realisation of idea of financial support for private construction (of apartments) for rent in a direct or indirect manner. The potential still present in private tenancy seems to be significant.

1.4 Summary

The basic weakness of the Polish housing policy is the lack of sovereignty and competence in setting forth both its objectives and tools for execution of these objectives. It has a resultant nature and often is a random result of both construction market behaviours and – primarily – a low priority assigned to housing among many other domains financially supported with public funds (Herbst, 2013, p. 17).

Realisation of postulates and plans concerning housing included in the strategic, long-term programmes of the government is the necessary prerequisite of growth of the entire rental sector, including creation of sophisticated institutional and organisational solutions in this sector. What is necessary is state support which is not stronger than the present one but is competent and respectful of the actual conditions of housing market operation in Poland. In particular, this concerns a proper reaction to low ability of the overwhelming group of young households to purchase an apartment and the increasing needs of specific social groups

endangered with social exclusion. In the context of the economic crisis and problems of the state budget deficit, it is worth emphasising that the change of the structure of budget expenditures for housing purposes would be sufficient to stimulate the development of the rental sector. The proposal to change allocation of the funds planned for the next programme of supporting purchase of apartments can serve as an example here.

In spite of the lack of plans concerning regulation of institutions facilitating or acting as an agent in renting private apartments for social purposes, the basic legal conditions for their operation are in place. There is a dramatic shortage of housing resources to be managed by social rental agencies. A programme of financial support for the private rental sector, as accounted for in the programme of 2005, would be recommended.

On the other hand, it is worthwhile to follow the operation of NGOs dealing with housing support and actions of the most innovative communes in the housing area. Although they operate locally and individually, they execute – with the support of local self-government – complex programmes of making such apartments available, similar to the idea of social rental agencies.

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V. Slovakia: Social rentals in Slovakia

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1.1 Introduction

The four decades of the communist regime 1948-1990 was a period of housing construction boom in Slovakia. Large public investments into housing development, available public support for self-help construction of private family houses, mostly in countryside, or semi-public (because controlled and subsidized by the State) cooperative housing in towns contributed to a substantial growth of the housing stock, which increased from 823,158 (or 239 per 1,000 inhabitants) in 1950 to 1,768,833 (or 335 per 1,000 inhabitants) in 1990.²⁰ The transition period after 1989 was marked by two important changes in the field of housing: radical decrease in construction of housing and extensive and rapid privatisation of the public housing stock.

The production of new housing in the first decade after the fall of the communist regime dropped to less than a quarter compared to the previous decade. While between 1981 and 1990 some 336,465 new housing units were built, between 1991 and 2000 there were only 78,319 new dwellings completed.²¹ During the last decade 2001-2010, the construction of new housing increased again, but with 164,558 new dwellings represents only less than a half of the last communist decade's production.²² The recent increase in construction was substantially driven by private construction: almost 85 per cent of the completed new housing between 2001 and 2010 was private, while between 1991 and 2000 the private flats represented 50 per cent and between 1948 and 1990 only 39 per cent of the new housing production.

In 1991 the State, which was lacking funds for its necessary maintenance, transferred the public housing stock to newly created municipal self-governments, and established legal framework for privatization of the housing by tenants. The tenants of flats owned by the municipalities, the State and State-owned companies (including companies to be privatized) were granted with time-unlimited right to buy with prices set up by the law at level of approximately 5 per cent of the market price. The right to buy applied also to tenants of cooperative housing, however under less favourable financial conditions (the price was set up on the level of the unpaid price of the dwelling). The flats, which have not been privatized, could not be sold or transferred to other persons than tenants (with exception of flats occupied by rent dodgers), who enjoy regulated rent and strong legal protection and their right to buy is pending. In consequence, the most of the housing stock was privatized and Slovakia is among the EU countries with highest shares of population living in owner-occupied housing.

In 1991, 50 per cent of dwellings were private, 22 per cent cooperative housing, 21 per cent municipal housing and 6.5 per cent owned by the State or State-owned companies. Twenty years later, in 2011, already 85 per cent of the occupied dwelling stock was in private ownership, while cooperative ownership represented 3.5 per cent and municipal ownership only less than 2 per cent. According to the EU SILC 2011, more than 90 per cent of households in Slovakia lived in owner-occupied homes, 7.8 were tenants with a market price rent, 1.4 per cent in free accommodation and 0.6 lived in reduced-rent housing.

²⁰ Špírková et al., 2009: 49-51.

²¹ Ivanička et al., 2003: 37-38.

²² Statistical Office of the SR.

There are no available current data on the extent of the private rental housing in Slovakia. In 2004, the Slovak Ministry of Construction and Regional Development reported only 0.1 per cent of private rental housing.²³ By comparing data from EU SILC 2011 and Census 2011, we can roughly estimate the current extent of private rental housing as difference between the number of households living in rent housing (market price and reduced-rent) and number of rental dwellings owned by municipalities and cooperatives, as low as approximately 70,000 or 4 per cent of the occupied dwelling stock in the country.²⁴ The National Association of Real Estate Agencies of Slovakia [Národná asociácia realitných kancelárií Slovenska] (NARKS) estimates the number of private rent flats even lower, only 50,000 dwellings in addition to several thousands owned by business companies, which use them for accommodation of their employees. More than 80 per cent of the private rental housing is located, according to the NARKS estimates, in the Bratislava region.

The private rental housing includes dwellings nationalized after 1948 by the communist regime and returned to their owners (or their heirs) after restoration of democracy in 1989. The tenants of these dwellings have been strongly protected by the Civic Code and the Government has regulated the rent, which even does not cover the owner's maintenance and repair costs and are far below market prices of rental housing.²⁵ Similarly, regulated rent also applies to housing owned by privatized State enterprises. In 2011 the Slovak Parliament adopted a law on deregulation of rent in such housing until 2017. The number of flats where the rent will be deregulated is estimated to 5,000 to 7,000, or less than 0.4 per cent of the occupied housing stock in the country.²⁶ The responsibility for substitute housing for tenants in flats, where the rent is to be deregulated, was transferred by the central government to municipalities. The law provides tenants, who do not own other housing in the same municipality or do not have financial resources to buy adequate flat ("housing need"), with right to substitute municipal housing with regulated rent. Due to massive privatization of municipal housing after 1991 the most local governments do not possess suitable substitute housing. Therefore the government allocated additional funds, 13.55 million EUR, for grants for procurement of substitute housing in 2013 and plans for state budgets 2014 and 2015 (19.05 and 25.50 millions EUR respectively). In case the municipality will not be able to provide substitute housing, the law stipulates municipalities' obligation to pay the households in "housing need" monthly contributions to cover the difference between regulated rent and commercial rent usual at the local market.

1.2 Rental housing

The governmental support of development of rental housing focuses supply side in form of incentives for construction of new housing. The Ministry of Transport, Construction and Regional Development provides grants and credits for provision of rental housing for defined groups of tenants. Between 2001 and 2010, in total almost 378 millions EUR were provided through grants for procurement of more than 30,000 municipal rental dwellings. Municipalities are eligible to apply for grants to procure substitute housing for tenants from housing with deregulated rent for tenants in "housing need",

²³ PRC Bouwcentrum International, 2004.

²⁴ This number is however very indicative as the two data sets were collected by different methods (Eurostat, 2010), the number of municipal and cooperative housing does not take into consideration an undetermined number unoccupied dwellings and we can suppose that a part of private housing is rented informally to prevent tax paying (income from flat renting is subject to income tax in Slovakia and there are not tax incentives for dwelling owners).

²⁵ The regulation of the rent does not take in consideration regional differences in housing prices or social and financial situation of the tenants.

²⁶ Therefore we cannot expect that removal of this deformation of the housing market will have a substantial impact on general prices of rental housing in Slovakia, as was the case in the Czech Republic, for example, and if any, it will probably affect only one segment of the market (housing in historical centres of towns).

which can be up to 100 per cent of the procurement costs.²⁷ Municipalities, regional governments and non-for-profit organizations established by municipal or regional government (if their share in the organization's property and representation in the administrative board is higher than 51 per cent) can apply also for grants for provision of social rental housing). The support intensity was increased starting from 2014 and varies from 30 to 75 per cent of procurement costs depending on size, standard and method of procurement.²⁸ The newly procured dwellings must be used as social rental housing for at least 30 years after the governmental support and annual rent cannot exceed 5 per cent of the procurement costs.²⁹ The social rental housing is reserved for households with income not exceeding three times the subsistence minimum³⁰, or lone parent families, households with handicapped person or households with a member providing health, educational, cultural or security services for inhabitants of the municipality with income not exceeding four times the subsistence minimum or for persons after institutional care younger than 30 years.³¹

Alongside with non-returnable support in form of the grants, the government provides through State Housing Development Fund [Štátny fond rozvoja bývania] (ŠFRB) returnable loans for procurement of housing. The law on ŠFRB was changed in 2013 and the amendment, among other modifications, extends the eligibility of support from municipalities and non-for-profit organizations (for public rental housing) also to any private entity procuring rental housing (starting from 2014).³² New eligible receivers of the ŠFRB's loans are legal entities based in the Slovak Republic and operating at least 5 previous years (certified by tax declarations) before applying for the loan. The loan can be provided up to 80 per cent of the procurement costs of and up to 60,000 EUR for a period of maximum 30 years with annual interest rate 1 per cent.³³ The beneficiary must use the new dwelling for the purpose of rental housing during 30 years and during this period the dwelling serves as guarantee for the ŠFRB. The dwelling must be rented in accordance with the law on social housing^{34,35} and provided to tenants, whose income does not exceed four-times the subsistence minimum.

The monthly income threshold of eligible tenants of social housing is undifferentiated regionally, while the incomes vary substantially in diverse regions, and is set up relatively high compared to the income level in Slovakia. The current level of subsistence minimum is set as 198.09 EUR for a major person, 138.19 EUR per other major person within the same household and 90.42 EUR per minor child or child attending school under 25 years of age. Thus, the monthly income threshold for a household composed of two parent and two minor children is to be eligible for rental housing procured with State grant is 1,551.36 EUR (three times 517.12 EUR) and in rental housing procured with ŠFRB soft loan 2,068.48 EUR (four times 517.12 EUR). Average disposable monthly income of such household in Slovakia was, according to EU SILC 2011, 1,262 EUR (the average disposable income per person was 381 EUR in Slovakia, in the wealthiest Bratislava region 476 EUR, but in the poorest Prešov region only 327 EUR). It means that the social housing is eligible not only to the poorest strata of the population, but to much wider group of population.

²⁷ Act no. 261/2011 Coll. on grants for provision of substitute housing.

²⁸ Act No. 134/2013 Coll. which amends the Act No. 443/2010 Coll. on grants for development of housing and on social housing.

²⁹ Maximal monthly rent (without utilities) varies in case of lower standard from 70.00 EUR (rehabilitation), or 98 (new dwelling), up to 84.00 EUR (rehabilitation) or 117.00 EUR (new dwelling). In case of common standard from 135.00 EUR (rehabilitation) or 188.00 EUR (new dwelling) up to 158.00 EUR (rehabilitation) or 220.00 EUR (new dwelling). The owner can however set a lower rent, but must ensure proper management, maintenance and repairs of the building.

³⁰ Act no 601/2003 Coll. on subsistence minimum as amended.

³¹ Act No. 443/2010 Coll. on grants for development of housing and on social housing.

³² Act No. 150/2013 Coll. on State Housing Development Fund.

³³ The monthly repayment of the loan is thus 192.98 EUR.

³⁴ Act No. 443/2010 Coll.

³⁵ Maximal monthly rent (without utilities) can be thus up to 312.50 EUR.

Distribution of the State support of public rental housing development does not take into consideration the economic development potential or available job opportunities. In consequence, a substantial part of new housing built with public investment is located in small municipalities or marginalized regions; on the other hand large towns and regions with available employment, which are destination of many work migrants, suffer from housing shortage and high prices of private rental housing. Only the recent legal change opening possibility of public support of development of private rental housing, introduced consideration of the development potential of target areas of the financial intervention: the soft loans can be used solely for procurement of new dwellings in towns or villages directly neighbouring towns, or villages where industrial parks are being developed, can be supported.

On the demand side, the only existing support of housing is the housing allowance provided as part of the benefit in material need, which has been qualified by the World Bank as very good in targeting accuracy (82 per cent of benefit in material need are in the poorest 20 per cent of the population), but poor in coverage of the target population (only 41 per cent of the bottom 5 per cent of the population).³⁶ The eligibility and real amount of benefit in material need including the housing allowance depends on the beneficiary household's income. The amount paid is calculated as difference between the sum of entitlements³⁷ and actual income (excluding 25 per cent of income from work and retirement pensions) of the household. The housing allowance actually covers even less of the target population, as it is conditioned by beneficiary's legal housing tenancy or ownership (so informal Roma settlements are excluded from access to this allowance³⁸), the beneficiary cannot have debts on rent or services related to housing (including property taxes, municipal and maintenance fees), or must have an instalment plan to settle the existing debt. According to the World Bank's study, only half of the beneficiaries of help in material need actually receive also the housing allowances.³⁹ The (maximal and theoretical – as the real amount of help in material need is paid as difference between households' entitlement and income) amount of housing allowance is 55.80 EUR for individual and 89.20 EUR for a household with more than one member; the amount of the allowance does not reflect beneficiary's actual housing costs, regional differences or other variables. Additionally, ability to pay housing costs is not tested, and access to housing benefit depends on eligibility for material need assistance. It means, that low-income households, which have problems to pay for housing do not receive housing assistance if they are not eligible for material need assistance (or 75 per cent of their income exceeds the sum of their entitlements). The amount of the housing allowance barely reaches the level of maximal regulated rent in lower standard public social housing (excluding other payments related with housing such as utilities), or even actual costs of ownership housing in apartment blocks in towns (which typically include maintenance, repairs, housing administration waste disposal, and utilities – heating, electricity, cold and hot water supplies).

In practice municipalities do not set the rent in public social housing on the maximal level allowed by the regulations to make it accessible to target groups as part of local social policies. This is particularly the case of housing for marginalized Roma, which is usually planned and constructed as

³⁶ World Bank, 2012a: 4.

³⁷ The amount of the basic benefit in material need depends on the household structure: for individual with no children: € 60.50; individual and 1-4 children: € 115.10; individual with 5 or more children: € 168.20; for a couple with no children: € 105.20; couple with 1-4 children: € 157.60; couple with 5 or more children: € 212.30. To this basic benefit diverse allowances, including housing allowance, are added and the sum represents the entitlement for help in material need.

³⁸ According to sociographic mapping of Romany settlements in 2003-2004, 40 per cent out of approximately 320,000 Roma in Slovakia live in rural and urban marginalized communities (including segregated settlements); about one third of households in marginalized communities live in informal housing. (Jurásková et al., 2004)

³⁹ World Bank, 2012b: 64.

segregated from other target groups of municipal rental housing. The differentiated rents in diverse public housings (so called lower-standard flats and common-standard flats differ by floorage and equipment, but also by share of State's subsidies for construction⁴⁰ and consequently by level of monthly rent) within the same municipality often serve as instrument and explanation for ethnical segregation of marginalized Roma (who cannot afford more expensive housing designed for non-Roma).

The subsidized low-standard housing is usual scheme utilized for construction of housing in marginalized Romani communities. The minimal compulsory equipment of the low-standard housing is connected with anti-Roma bias and widespread stereotype that Roma destroys their own housing.⁴¹ However, an independent monitoring in 2008 showed that bad technical condition of social housing in many Romany settlements is rather caused by poor quality of construction and non-delivered materials or equipment than to behavior of tenants. Furthermore, the monitoring revealed that almost 90 per cent of social housing projects focusing Roma conserve or even deepen the existing ethnic residential segregation and virtually none of them contributed to achievement of ethnic and social mix.⁴² It is not unusual that a municipality implements two housing projects at the same time: one of common standard for non-Roma in the central zone and the other of lower standard in the outskirts of the municipality exclusively for Roma.⁴³ In 2009 a district court in Prešov condemned the practice of construction of social housing for Roma in remote segregated location (an financial support of such projects by the government) as prohibited ethnic discrimination.⁴⁴

1.3 Private rental housing

The transformation of the housing sector after the fall of the communist regime fundamentally shaped the structure of the ownership and of the housing market. Although the exact numbers are not available, according to all expert estimates, absolute majority of the private owners of housing in Slovakia possess single dwelling (inherited, self-built or privatized under favourable conditions from municipality or the State). Growing group of private landlords is still very limited. They usually own one (rarely more) additional housing, which they acquired mostly by heritage or through investment of available capital (savings, over plus from income or opportunity of favourable loan or mortgage) into future housing for children. Such dwellings are rented on commercial basis and constitute the private rental sector in Slovakia.

The private rental market is therefore individualized and according to the NARKS large professional corporate or private landlords are virtually missing. As stated by Association of Housing Owners [Asociácia vlastníkov bytov] and NARKS, only relatively few half-professional landlords exist in Slovakia, possessing up to four rental dwellings procured as income generating investment ("buy to rent") during the economic boom. Such investments seemed to be meaningful only in large towns and developed regions, where property prices are very high. Private developers have focused only on construction of new housing to be sold immediately and not to be rented. This is due, as claimed

⁴⁰ In case of lower-standard housing, the State subsidy varies between 70 and 75 per cent, while in case of common-standard housing the subsidy is only from 30 to 40 per cent of the overall eligible costs for procurement of the flat; for the remaining part of the costs municipalities usually apply for loans from ŠFRB or other resources.

⁴¹ Order of the Government of the Slovak Republic no. 353/2006 Coll. on details on requirements for interior of buildings and on minimum requirements for lower standard housing and for accommodation facilities, which introduced the reduction of equipment of lower standard housing, explicitly states that Romany inhabitants damage or sell flat equipment.

⁴² Hojsík, 2008.

⁴³ Hojsík and Peric, 2009: 6-7.

⁴⁴ *B. Č. and others v. Town of Sabinov and Ministry of Construction and Regional Development of the Slovak Republic*, 25 C 192/2007 (2009). However the judgment of the district court is not final (the defendants appealed to the Supreme Court) and thus has not been reflected in the national housing policy, yet.

by NARKS and experts from the Ministry of Transport, Construction and Regional Development, to lack of incentives, unfavourable fiscal conditions and strong legal protection of tenants in Slovakia to make such investments attractive for developers. In consequence, there is a large shortage of available (demand exceeding supply) and accessible (financial affordability) rental housing, especially in large towns and developed regions, having negative impact on mobility of the labour force.

Unlike municipal rental housing providers, private rental housing owners are profit-oriented and therefore in situation of demand exceeding supply of rental housing and missing financial incentives for private social housing (subsidies, tax reductions and so forth) they tend to minimize the rent and do not have motivation to make it available also for low-income groups of housing-seekers. According to interviewees, all rented private housing in Slovakia is rented for market prices and landlord's strategy is to keep flat unoccupied rather than to rent it for a price not covering the investment and operational costs. The reasons for such behaviour are, in the opinion of the NARKS, physical depreciation of the housing by tenants, maintenance, administrative and taxing burden and problems if the tenant must be evicted in case of termination of the tenancy, which enjoys high legal protection. Additionally, a flat with tenant is more difficult to be sold to an other owner, as the tenancy is transferred *ex lege* with the transfer of ownership and continues under the same conditions as agreed with the previous landlord in relation to the new landlord.⁴⁵

The tenancy, regardless of its nature (private, public or social housing), is protected by the Civil Code in Slovakia, what practically means that the landlord can cancel a open-term tenancy only for reasons defined by the law. These conditions for cancellation are:

- if the landlord needs the dwelling for his/her personal accommodation or accommodation of a close relative,
- if the tenant quits working in a work position, to which the dwelling was provided,
- if the tenant or member of his/her household roughly damages the dwelling, or misbehaves,
- if the tenant is delayed in payment of the rent or other payments related to housing for a period of time longer than three months,
- if the tenant leases the dwelling or its part to a third person, or uses the dwelling to other purposes than housing without authorisation of the landlord,
- if the dwelling cannot be used for housing due to public interest, or repairs, which will take longer than six months are needed.⁴⁶

The period of notice in case of cancellation of the contract by landlord defined by the law is three months and in case of tenants in material need who is delayed in paying rent, the period is extended by additional six months, during which the tenant can repay the debts and the reason for cancellation becomes void.⁴⁷ In most cases, the landlord must provide the tenant with substitute housing of adequate quality and pay the costs of moving into new housing. Only in case of cancellation of tenancy because of damages of dwelling, misbehaviour or not paying rent for a period of time longer than three months the landlord does not have obligation to provide adequate substitute housing; however if the person is in material need, the landlord must provide substitute accommodation and also on other cases, the court can order the landlord to provide shelter. If the tenant's household includes a minor child or immobile person, a substitute housing or accommodation must be provided in any case. Additionally, the tenant has the right to file the cancellation of the tenancy to the court, which decides on its legality, but the burden of proof is up to the landlord. Even in case of cancellation of the contract approved by the court, the landlord cannot evict the tenant without special decision of court on eviction, which must be carried by juridical executor. Taking into consideration delays in operation of courts in Slovakia and possibilities of appeals or obstructions, the process of cancellation

⁴⁵ Civil Code, para 680 and decision of the Supreme Court (5 Cdo 343/2009).

⁴⁶ Civil Code, para 711.

⁴⁷ Civil Code, para 710.

of tenancy until effective eviction of housing can take months or even years. Landlords try to manage the risks of problems with payments by tenants by requesting returnable financial deposit (guarantee) in amount of one to three monthly rents, which makes private rental housing even less accessible to poor. Most landlords limit the risks of problems with cancellation of legally protected tenancy by concluding short-term (usually one-year) rent contracts. In this case the tenancy terminates with expiration of the agreed period, after which the landlord concludes a new time-limited contract with the same or other tenant.

In consequence the private rental housing does not offer guarantee of long-term stability even for tenants who regularly pay rent and fulfil all obligations related to tenancy. Therefore, investment into renting housing is less attractive than ownership housing acquired with mortgage and use of different available supporting instruments (soft-loans from the ŠFRB, State bonus to construction savings), even if this means life-long indebtedness (usually 30 years). Moreover, the amount of instalments of mortgage is usually only slightly higher than market rent in developed or developing areas with employment opportunities and decent public services. In the opinion of interviewees, the difference between mortgage for ownership housing and rental housing should be higher than 200 EUR to make rental housing more attractive than ownership housing in decision-making of young families. Additional factor leading to preference of ownership as the dominant form of housing are low pensions in retirement age (compared to income from work), which would not be sufficient to pay rent in private housing. Investment into ownership housing is also perceived as saving for old age, when the private property can be sold to acquire cash.

Private rental housing is mostly connected to a certain periods and situations of the life cycle. According to representatives of real estate agencies, among typical tenants of private rental housing are students, young persons at the beginning of their careers and, in centres with available employment opportunities, migrant workers; these groups often share rented apartments to be able to pay high market rents and minimize expenses for such temporary housing. With establishment of family or decision to permanently move to the place of employment they usually seek to get mortgage and acquire ownership housing. Other group of renters, especially in less developed regions, are persons who lost their own housing (they were forced to sell it for financial reasons or divorced and their former housing was kept by the other partner) or are not able to buy own housing because of low income. As affordable public social housing is available only in very limited extent, these groups are dependent on private market rental housing, which consumes substantial portion of their incomes.⁴⁸ Landlords and real estate agencies perceive them as tenants with higher risk of irregular payments of rent. Many of them return to their parents'. As landlords check job status of potential tenants and due to strong ethnic stereotypes, long-term unemployed persons and Roma are the groups with the most limited access to the private rental housing and are fully dependent on public social housing, which exists only in limited extent and is often located in areas with low development potential. These groups become lifecycle public renters.

Ownership housing is perceived as norm and objective of life strategies of the most of Slovak families. This is determined by a strong agricultural culture of rural Slovakia based on land and home ownership, which was not eliminated despite communist policies of collectivization and urbanization. Even poor strata of society, including Roma from marginalized communities, aspire for ownership housing, which they can afford only in very marginalized regions with virtually no job opportunities, leading to trap of social exclusion.⁴⁹ Local populations are sometimes hostile to inflow of Romani population and take steps to prevent it, mostly by buying dwellings, where Roma could move in.

⁴⁸ A survey from 2007 indicates that private rent housing is four-times (in Bratislava ten-times) more expensive than in public one.

⁴⁹ Similarly, cases when landlords of housing in towns inhabited by Roma evicted them into substitute housing in small municipalities in marginalized regions, were recorded.

1.4 Conclusion

Slovakia is characterized by extremely high share of the ownership housing and lack of available rental housing, which would be affordable also to low-income tenants or even for persons facing or in risk of social exclusion or marginalized social groups. The public social housing stock is very limited, the generalist social housing model in Slovakia makes it accessible to too wide income groups, and finally, even the social housing's costs are above possibilities of the most vulnerable groups of population; in case of Roma, discrimination and segregation represent an additional barrier. The private social housing sector is virtually inexistent and the national housing policy does not contain any incentives for its development. Due to shortage in housing stock, especially in large towns and areas with employment opportunities, prices of the (profit-making) private rental housing are very high even for the middle class, and are comparable with costs for procurement of ownership housing.

The existing support of the housing development is mostly focused on the supply side, through financial aid schemes (grants and loans) controlled by the Ministry of Transport, Construction and Regional Development. Only public social housing can be supported.

On the other hand, the demand side, which is managed by the Ministry of Labour, Social Affairs and Family, is insufficiently supported; the housing benefits are provided to only very limited constituency (only the poorest with severe disqualification criteria). Housing benefit amount, which does not reflect actual expenses related with housing and their regional differences, is insufficient to cover real housing costs and makes private rental housing (but in many cases also public social housing) unaffordable for its beneficiaries.

Development of the private social housing would require a comprehensive reform of both housing and welfare policy in Slovakia. The groups of housing benefits' receivers should be extended to promote social mobility and work migration and their amount should better reflect real and regionally differentiated housing costs. The social housing and social services should be better connected. Supporting services to vulnerable tenants and better balance between protection of tenants and landlords can create increase motivation of private investments into social housing (guarantees of due payment of rent, appropriate use of dwellings by tenants and flexibility in tenancies).

1.5 References

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