Affordable Housing in Central and Eastern Europe: Identifying and Overcoming Constrains in New Member States

Research for the European Housing Partnership (EHP)

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Authors: József Hegedüs, Vera Horváth and Eszter Somogyi

in cooperation with Anna Bajomi, Éva Gerőházi and Hanna Szemző

Experts: Anneli Kahrik (Estonia), Martin Lux (Czech Republik), Veronika Reháková (Slovakia), Richard Sendi (Slovenia)

Metropolitan Research Institute

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Introduction

The European Housing Partnership (EHP) is committed to investment in affordable housing in Europe through identifying constraints and bottlenecks in terms of access to housing and long term affordability, as well as through examining and promoting good practices and innovative solutions in the sector. Metropolitan Research Institute (MRI) was invited by EHP to carry out research for the Housing Policy working group about the Central and East European experience of these issues, namely in the eleven new Central and East European EU member states (Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia). The research to support EHP in developing its Action Plan must pay special attention to the new EU member states (NMS) because of the historical particularities of Central and East European (CEE) post-socialist countries. The current study draws from MRI's existing research[1], and used the input of four in-country experts: Anneli Kährik (Estonia), Martin Lux (Czech Republic), Veronika Reháková (Slovakia) and Richard Sendi (Slovenia).

Affordable housing is one of the most widespread social aims of the housing policies in Europe. Housing affordability has come to the forefront of housing policy research in the past two decades for a number of reasons. In our approach the starting point of analysis is the dual role of housing as both consumption good and investment (savings) good, which makes the housing market volatile – often beyond average households' ability to adapt to rapid market shifts. The continued, albeit territorially diversified, increase of housing costs (price and rent level) resulted in worsening overall affordability. This is partly explained by the so-called 'house price disease': while the production cost of most consumption goods has been reduced by technological improvement and increased efficiency, the production cost of housing remains stable, as a result of which housing costs take up an increasingly large share of households' consumption baskets. In parallel, labor markets have become more flexible, which makes them more efficient at the cost of employment security: the legal protection of employees has become weaker to permit this greater flexibility and efficiency. Due to this, households face increased risks even in more developed (higher income) societies. These phenomena emerge more pronouncedly so in new EU member states compared to the EU-15 countries (EU members before 2004) due to a number of factors, ranging from an already weaker level of incomes and affordability, lower quality housing stocks, and the chronic lack of subsidized housing. The current study discusses the specific situation of new member states in light of the macro level developments of the recent years.

The social consequences of worsening housing affordability stem from households' efforts to adapt to their changing possibilities. Persons and families affected by the financial constraints of growing housing costs either have to restructure their household budget, which may result in a very restricted consumption of non-housing goods (culture, recreation, transport, food and non-alcoholic beverages etc.); or are forced to change their housing situation, and move to a lower position on the housing ladder (to more a crowded or overcrowded, low quality or substandard dwelling, or to an affordable but remote location, cut away from residential services and good employment opportunities). Moreover, as both labor and housing markets are becoming increasingly volatile, under certain conditions the situation of a household may change drastically in a short timeframe.

[1] Hegedüs and Horváth (2015); Hegedüs, Elsinga, and Horváth (2016), Hegedüs (2017a)

Housing and labor market institutions' (policy measures and organizations) ability to neutralize market stress effects depends on a country's welfare regime and housing regimes. Steep price growths in urban markets affect housing relations – e.g. between tenants and landlords, banks and borrowers, cooperatives and their members – could easily cause grave hardships for lower income families, especially if the institutional environment of housing does not contain effective safeguards against market stress. Moreover, in countries where the welfare system is less effective, and the share of the shadow economy and 'involuntary entrepreneurs' is higher, income benefit programs to compensate those most at risk may also be missing or of limited effectiveness. However, a number of smart measures could be employed to mitigate the impact of macroeconomic swings, such as flexible rent regulation, reserve funds for cooperatives, fixed interest rates and thorough underwriting regulations, and a balanced regulation for the use of second homes.

To understand the challenges surrounding the questions of affordability, but also adequacy, research has to go beyond the currently most widespread approach of largely limiting itself to analyzing tenure structure (unitary and residual model), and has to include in its scope welfare regimes and housing regimes in a broader sense; as well as research informed by the 'structures of housing provision' approach; and labor market contracts and welfare programs in order to understand how room is provided for households to cope with market stress. At a European level, support schemes and programs must be based on an in-depth understanding of the interplay of housing regimes and welfare regimes, to effectively evaluate different solutions aiming to improve affordability in a socially and financially sustainable manner. EU institutions and member states have to promote housing policy and welfare measures which contribute to the social stability of European societies.

This study first identifies the situation of new CEE member states (NMS) in the context of the European Union, and analyzes the differences and similarities among the three larger regions of the EU: (1) the most developed group of countries in Northern and Western Europe; (2) the Southern European countries; and (3) the Central and Eastern European transition countries. Our analysis uses statistical indicators from four main areas: economic, demographic, social, and housing (stock and market) developments. It then focuses on differences among the eleven NMS, especially on the most relevant issues (economic growth, demography, social inequality and poverty) for understanding their housing system development patterns, and policy makers' responses to social and economic changes. The next sections give a short overview of the main trends in the housing sector, taking a closer look at privatization and restitution, housing finance, housing construction, and management.

The second major part of the study provides a revised approach and reinterpretation of *housing affordability* in the CEE context, taking into account the risks run by the social groups which are the most vulnerable to hardships in housing affordability, going beyond the most widely used measure of affordability expressed in a cost-to-income percentage ratio, and pointing out its limited usability in a CEE context (as it leaves out of the equation major issues, such as location, adequacy, the risk of inexpensive but substandard housing etc.). The key section takes a look at the structure of the housing market in NMS, combining the tenure based approach with the 'structures of housing provision' approach, introducing *a special submarket matrix*[2] to provide a dynamic understanding of affordability in the CEE context. The final part the study presents recommendations on the principles of developing effective schemes to support housing affordability in a way that also benefits the most at-risk

[2] The original and more detailed version of this approach see Hegedüs (2017b).

populations of the new member states, based on existing but small scale innovative solutions, to be developed based on the input of in-country consultants, as well as on EHP expert feedback.

The main conclusions of the study are the following:

1. New Member States (NMS) have a particular position among EU member states in at least four dimensions: the level of economic growth (slow convergence with contradictory processes); demographic trends characterized by high outmigration and low fertility; increasing inequality; these are counterbalanced neither by strong economic growth, nor an efficient welfare system; and a substantial differences in the level of housing consumption and the overall quality of housing.
2. There are important differences among NMS, but the focus of our study is their uniformly increasing social inequality, and the efficiency of their welfare systems to control poverty at a politically manageable level. We define four groups of the countries in a tentative classification; however, it is unclear if these groups are currently forming diverging models, or only represent variations in an essentially diverging model. At any rate, the regional inequality in the individual NMS must be taken into consideration for the formulation of adequate urban and housing policies.
3. We then overview the recent historical development of housing policies and housing systems in NMS. The CEE region has been characterized by states' massive withdrawal from housing provision and subsidization since 1989/1990, and then by pronouncedly low levels of public policy interest in housing. The study addresses the four most influential policy areas (privatization/restitution, new construction, housing management, and housing finance) and the main social housing policies, and concludes that NMS housing sectors contribute only modestly to alleviating social inequalities.
4. The main topic of the study is *housing affordability*. Several approaches are in use to assess housing affordability, used by the research community, policy makers, or advocate groups. The study contributes two new elements to the existing literature:
    1. we interpret housing affordability as a dynamic process, where the risks related to housing tenure and regulation play an important role;
    2. stemming from our conclusion of there being two key vulnerable classes, we differentiate between two types of housing affordability problem:
        i. structural (related to poverty);
        ii. the new affordability problem of the middle class (noting that CEE middle class, in terms of purchasing power, is more comparable to EU-15 countries' low income and lower middle class social strata).

        These two vulnerable groups exist in older EU member states as well, but they have a greater weight in NMS societies, and their position is rendered more critical by a number of factors, which are more widespread and more challenging to manage in NMS (forced self-employment, envelope wages, informal economy etc.).
    3. Housing affordability must be interpreted in the context of volatile job and housing markets, and continuously increasing income inequality.
5. To conceptualize and compare the NMS housing regimes to other EU housing systems, the above mentioned housing submarket matrix, representing housing market dynamics, will be

introduced, based on tenure structure and basic structures of housing provision. This will to set up an analytical framework for understanding the regulatory and subsidy content of housing programs and measures on distinct submarkets. The focus of our approach is on the different solutions under the 'state integrated' models within the matrix, independently of tenure form.

6. To evaluate the programs and develop our recommendations we defined a structured set of evaluation criteria, which must be taken into consideration at the development of subsidized housing programs in NMS, to ensure their success in helping the stability and social integration of beneficiaries, as well as the financial sustainability of the scheme in question. We define five basic criteria: 1. targeting; 2. quality/location of the housing units involved into the program; 3. financial sustainability; 4. the control of the "leakage" of the public resources; 5. guaranteeing room for maneuvering to the beneficiaries who have financial hardship. The overview of the social housing programs according the above criteria show the basic constrains the countries face to like the financial unsustainability, non-targeting, the low quality of the social sector (even the new programs), the leakage of the state subsidies and the limited possibilities for the beneficiaries to cope with the financial difficulty.
7. Finally, based on the analysis, we put forward a number of recommendations to improve the efficiency and social integration capacity of the housing sector, and affordable housing provision measures. In order to manage the typical risks of households (ranging from labor market related to family, housing market and so forth) in the state integrated submarkets, the use of public resources must be strengthened, but also improved.

1. The state of the NMS in EU

The starting point of our understanding the housing situation and options for the NMS is a brief analysis of basic differences between old EU member states (EU-15, the countries which joined the European Union before 1996) and Central and Eastern European new member states (NMS), eleven transition countries which joined the EU in multiple terms between 2004 and 2013. According to the present paper, there are a number of structural differences between these two sets of countries, due to which a different policy and subsidy approach may be necessary to improve housing affordability through coordinated EU level measures. The eleven transition NMS have a particular position among EU member states in at least three dimensions:

a. the level of economic growth (slow convergence with bidirectional processes);
b. a long term negative demographic trend, characterized by high and increasing outmigration and low fertility;
c. a huge increase in social inequality indicators had taken place between 1990 and the present day, which seems to continue, and is not counterbalanced neither by strong economic growth, nor efficient welfare systems.

To show these trends we separated member states in three larger regions: Northern and Western European "core" countries; a Southern European periphery consisting of Cyprus, Greece, Italy, Malta, Portugal, and Spain, which are positioned in terms of the four major dimensions in between transition countries and core countries; and a new periphery consisting of the NMS. Figure 1 presents this rudimentary grouping.[3]

Figure 1. The core countries and two peripheries within the EU

1.1 Gross Domestic Product and demographic trends

In recent years, per capita GDP measured on Purchasing Power Parity in NMS was more than 30 percent below the EU-28 average, and more than 40 below the average of Western and Northern European member states. The difference in disposable income is 62 percent below EU average and 71 percent below "core country" average on a sample of 21 cities. The difference in national economic

[3] The indicators used for the analysis and presented in the two data tables are *weighted averages* of the indicators of the Member States. Depending on the indicator the weights are population (2014), or the number of the housing units (2011). The three groups of countries are the following: Core – Western and Northern Europe: Austria (AT), Belgium (BE), Germany (DE), Denmark (DK), Finland (FI), France (FR), Ireland (IE), Luxemburg (LU), the Netherlands (NL), Sweden (SE), and the UK; Periphery I. – South Europe: Cyprus (CY), Greece (GR), Spain (ES), Italy (IT), Malta (MT), Portugal (PT); Periphery II. – Central and East European new Member States: Bulgaria (BG), Czech Republic (CZ), Estonia (EE), Hungary (HU), Croatia (HR), Latvia (LT), Lithuania (LV), Poland (PO), Romania (RO), Slovenia (SI), Slovakia (SK). The source of the data for the majority of the indicators I3, I4, I5, I6, I7, 13, I16, I17, I18, I19, I20, I21, I22 is the Eurostat/SILC data base, for indicators I2, I10, I11 is numbeo.com; for indicator I12, I14 is Hypostat, 2014; for I1 is https://www.reinisfischer.com/gdp-capita-european-union-2013; for I15 is Housing of Europe Review, 2012 and indicator I8, I9 is https://en.wikipedia.org/wiki/Demographics_of_Europe#Population_by_country. For the detailed source of the indicators, see the Appendix.

wealth has strong implications for housing policy: member states with more limited economic possibilities have to pursue more modest housing policy targets, otherwise they either have to commit extremely high public resources, or the high level policy target will only be reachable for high income social groups.

Transition countries joining the EU between 2004 and 2013 were expected to see a rapid GDP growth, and “catch up” with older member states in terms of per capita GDP levels and other indicators, but this catching up never truly materialized. While the gap in per capita GDP narrowed over the past years, the narrowing process seems to have come to a halt after 2008; the gap still remains significant, and numerous factors seem to perpetuate it. The literature is generally divided over the question of whether a true catching up will take place in the medium to long run. Even economists who support the likelihood of Western and Eastern EU member state GDP levels and incomes converging more closely in the future refrain from overly optimistic predictions. At the same time other factors, such as demographic or infrastructural processes, suggest that the gap will remain significant in the foreseeable future.

Table 1. Basic economic indicators according the three groups of member states

		Core – Western and Northern Europe	Periphery I. - South Europe	Periphery II. - new member states	Total
I1	GDP PPP per capita, 2013	43,386	33,131	24,682	36,918
I2	Average salary (EUR/month), 2013	2,202	1,750	629	1,764
I3	Disposable income per capita 1,000 EUR (sample of 21 cities)	23,0	19,6	8,2	19,2
I4	Share of shadow economy in GDP (%), 2012	11	20	23	14
I5	Corruption index (100 = no corruption, 0 = full corruption)	79	51	55	67
I6	Percentage of all employees receiving envelope wages (%), 2007	1.5	5.7	12.2	4.7
I7	Population density (no. of people per km^2)	124	125	92	116
I8	Population (million)	273	130	104	508
I9	Population as percentage of EU total, %	54	26	21	100

Besides the economic development gap, it is important to highlight the differences in the institutional setup of economic structures in NMS, which show a lower level of transparency and rule of law than more developed member states, demonstrated by worse indicators on the shadow economy and corruption.

In consequence, the population of the NMS, around 100 million people, represent around one-fifth of the population of EU, and they live a less densely populated area, in the periphery. Interestingly, Southern European countries typically average between the NMS and the most developed part of Europe in terms of socio-economic indicators; but there are certain areas, such as the share of shadow economy or the corruption index, in which they are closer the NMS than to Western and Northern European countries.

1.2 Long term and continued demographic decline

The other most striking feature of the NMS is the continuous and long standing demographic decline – in fact, the Eastern and South Eastern European region has been the only greater region on Earth to see its population continuously decline since 1990. The population in the NMS has been continuously decreasing since 1989 due to low fertility as well as negative net migration; and even the CEE countries with the most positive indicators show stagnation or very slow increase in international comparison.

Table 2. Basic demographic indicators according the three groups of member states

		Core – Western and Northern Europe	Periphery I. - South Europe	Periphery II. - new member states	Total
I10	Population born in other EU member country (%), 2014	4.5	3.5	1.1	3.5
I11	Population born in non-EU countries (%), 2014	8.0	7.3	2.1	6.6
I12	Share of foreign-born population, 2014	12.4	10.8	3.2	10.1
I13	Total change of population between 2011 and 2013 (per 1,000 person)	13.3	7.3	-6.5	7.7
I14	Natural change of population between 2011 and 2013 (per 1,000 person)	4.8	-0.8	-4.6	1.4
I15	Net migration between 2011 and 2013 (per 1,000 person)	8.6	8.2	-1.9	6.3

The overall population ageing is a major challenge for the EU as a whole. At the same time, ageing caused by improving life expectancy and modest fertility in old EU member states is to some extent offset by positive migration: the overall population has been growing in Southern, Western and Northern European countries, while Central and Eastern Europe has seen a continuous and significant population drop over the past decades. There are some exceptions, characterized by modest and uneven growth, with periods of stagnation.

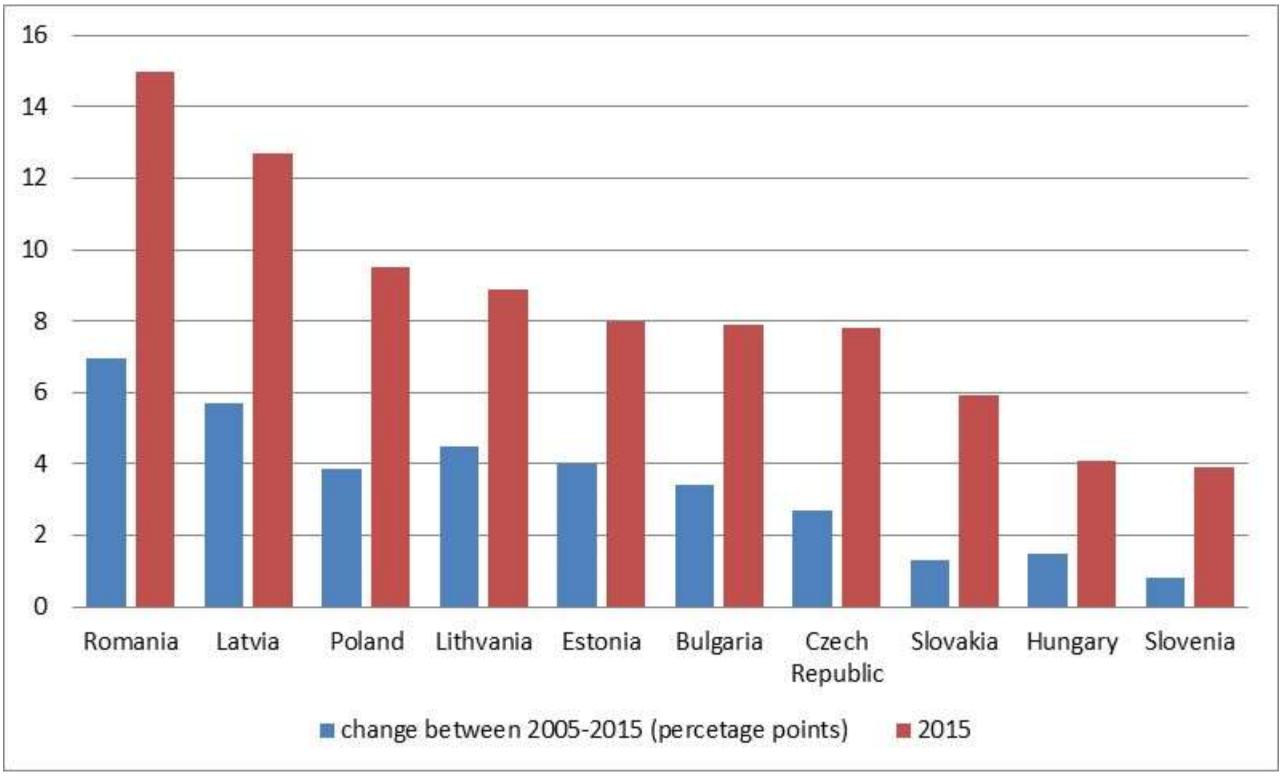


Figure 2. Share of the population moving other EU countries as % of the total population (Source: Benk and Gábriel, 2017)

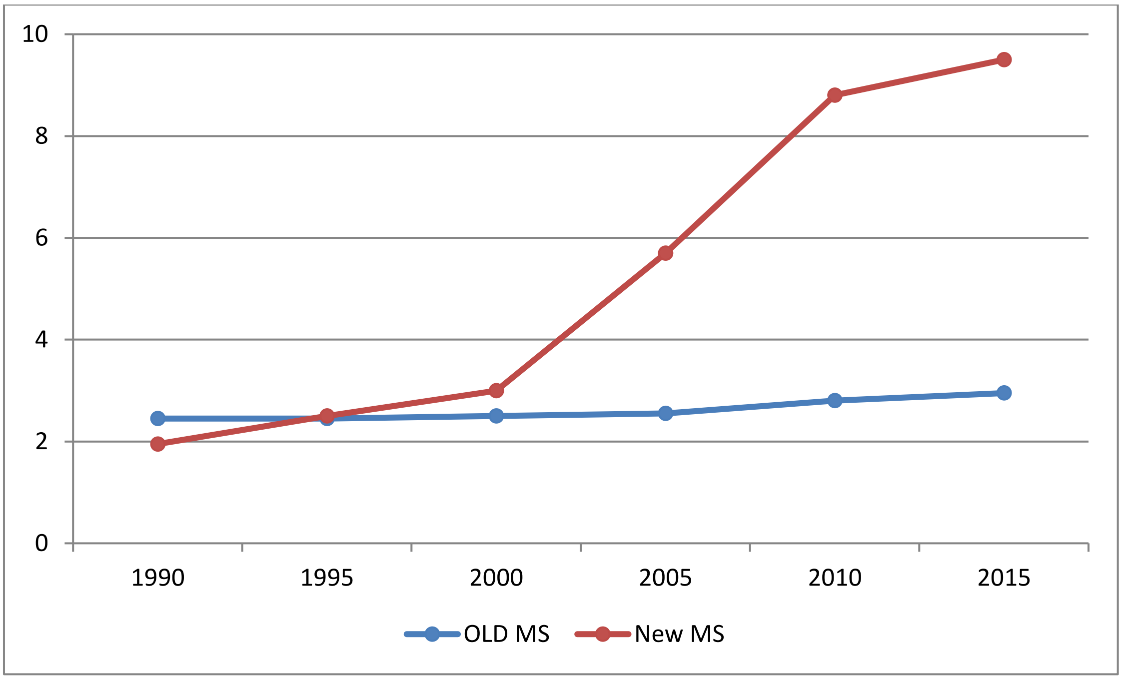


Figure 3. Share of the population moving other EU countries as % of the total population – New and Old Member States (Source: Benk and Gábriel, 2017)

1.3 Income inequality and poverty

Table 3. Basic inequality indicators in the three groups of EU member states

		Core – Western and Northern Europe	Periphery I. - South Europe	Periphery II. - new member states	Total
I16	Life expectancy at birth (2014)	80.9	81.4	76.1	80.0
I17	Inability to make ends meet - % of the population (2011)	14.7	36.7	40.2	25.4
I18	Gini index (2014)	23.4	35.6	30.5	28.0

The most widely used measure of income inequality within a society is the *Gini coefficient* (I24). Notably, the average value of this indicator in NMSs is barely higher than the EU average, and shows better performance than the Southern European group. Nonetheless, two factors must be taken into consideration when interpreting this value:

- First, the seemingly comparable level of inequality measured by the index covers a very different overall average wealth level. While the level of income and social inequalities grew considerably in 2004-2013 upon CEE countries acceding the EU, the key issue within NMSs is not so much an internationally outstanding level of income inequality as measured by the Gini coefficient, but much more so the fact that the similar pattern hides a graver problem of long term poverty and precariat, that these countries have been struggling to manage.
- Second, the level of inequality, as measured with the Gini coefficient, has been growing constantly and significantly since 1990; typically between 1.5 to twofold between 1990 and EU accession in transition countries (see Table 7), producing a comparable social class structure, but with crucial differences in terms of household wealth, financial stability, and opportunity; and in some cases this inequity continued to rise after the Great Financial Crisis (GFC).

It is also crucial that transition countries typically inherited modest quality but overarching welfare provision systems, which were able to alleviate income inequalities to a fair extent. However, socio-political restructuring also brought about massive cuts in social spending throughout most of the transition period, and further cuts are still made when a state faces budgetary pressure (such as the GFC after 2008). Their relatively low economic development levels did not permit CEE countries to maintain their generous welfare provision systems, which in turn are weak and underfunded in an overall European comparison. The nature of CEE welfare states will be discussed later in this paper; it must be noted, however, that they display a limited ability to stabilize households in temporary or permanent need.

2. Convergence and divergence among NMS

The economic and social development of the NMS during and after the transition process showed several differences as well as many similarities. The economic, political, and sociological literature is still debating whether the main trend among these countries was that of convergence or divergence.

There are several attempts to conceptualize the social and economic transformation of the NMS in the context of the welfare regime theory (Esping-Andersen, 1990). In ***the first approach***, Aidukaite (2011) argues that „CEE countries have a lot of historical, institutional socio-economic characteristics in common and therefore it is possible to group them into the ideal type post-communist welfare regime" (p. 217).[4] ***The other, conflicting approach*** (Bohle, 2007; Lendvai, 2008) argues that the differences among the NMS justify developing a typology based on the social-economic indicators partly touched upon in the previous sections. ***The third approach*** rejects the rationale for homogenous groups of welfare systems (or basically the welfare regime itself) because of the institutional differences, and variations in the dynamics of change in different areas of the social sector (labor market, income benefit, education, health system, etc.).

Our overview supports the third approach, according to which different countries follow different paths (economic and social policies may change in various areas of policies and in different periods). However, on the basis of the main available indicators we can describe the basic features of the different countries, without concluding that they belong to different "welfare regimes".

As housing policy, especially the social housing policy very much depends on the economic progress, the demographic trends and the inequality produced by the labor market it is important for us to give an overview of the main trends in the NMS.

2.1 Economic growth

The majority of researchers share the view that economic growth in NMS was faster in the entire post-transition period than in old EU member states, but the pace of convergence was much more modest than expected. In the first 5-10 years of the transition process, each Central and Eastern European country went through a transitional recession, from which they recovered by around 2000 to pre-transition level. A steady GDP growth characterized the region between the 2000 and the Great Financial Crisis (GFC) in 2008, followed by a 2-5 year downturn after 2008 (see Figure 4). However, different sub-groups of the 11 NMS followed different patterns:

- the CE5 (the "Visegrad 4" countries[5] and Slovenia) recovered earlier and experience faster economic growth than the other NMS;
- South-East European countries (Bulgaria, Croatia and Romania) were the last to pick up, but also the slowest to recover after the GFC;
- The Baltic countries showed the most economic volatility, but developed fast.

[4] For a similar approach, see Cerami, 2005; Cerami and Vanhuysse, 2009.
[5] The Czech Republic, Hungary, Poland, and Slovakia

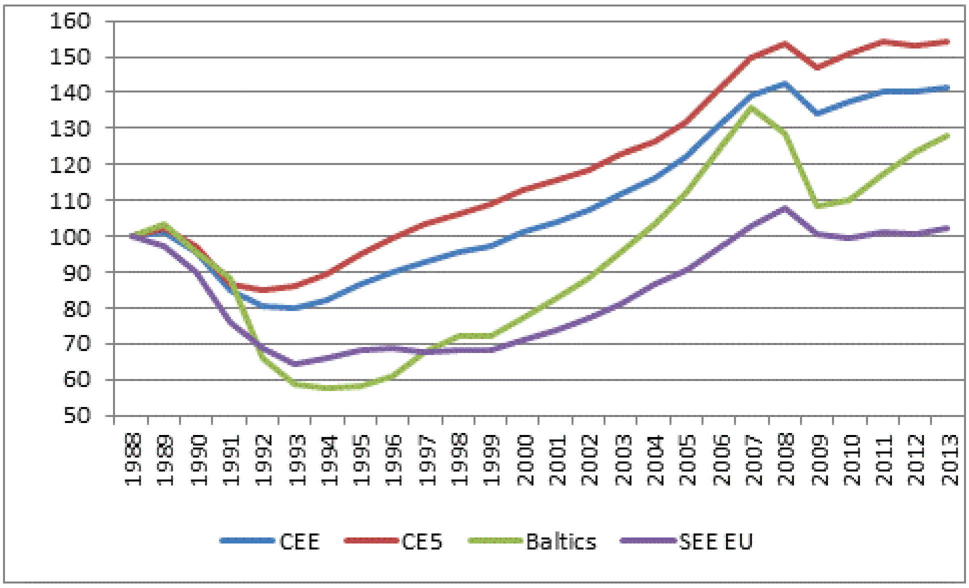


Figure 4. GDP growth in the NMS 1988-2013 (Source: IMF, 2014)

As mentioned earlier, per capita GDP levels in NMS lag behind Western European levels; nonetheless, there are important differences in the level of economic development among the 11 countries (see Table 4). Per capita GDP (in PPS) of the more developed countries (the Czech Republic and Slovenia) have a per capita GDP (in PPS) which surpasses that of the poorer NMS by 67 percent, whereas the economic development level of the Baltic countries is close to the leading countries. Bulgaria, Romania, and (with a slightly better performance) Croatia are on the lower end of the spectrum, while Poland and Hungary are on the middle of the scale.

Table 4. GDP per capita in EUR, in PPP and as % of the EU average, in 2013

	Per capita GDP (nominal)	Per capita GDP (PPS)	Per capita GDP (in PPS, EU=100)
Bulgaria	7 296	17 926	46
Romania	9 499	19 744	55
Croatia	10 555	20 947	59
Latvia	14 588	23 793	62
Hungary	12 698	25 019	67
Poland	13 432	25 247	67
Lithuania	14 688	27 259	73
Estonia	18 478	27 880	75
Slovakia	17 045	28 279	77
Slovenia	21 816	29 864	81
Czech Republic	18 861	30 047	84

Source: Eurostat (tec00114)

2.2 Demography

In the EU-28 countries, the total population increased by seven percent between 1990 and 2015. However, this was the result of asymmetric demographic patterns on an EU scale: the population has been growing steadily in old EU member states, and declined or nearly stagnated in CEE countries (see Figure 5).

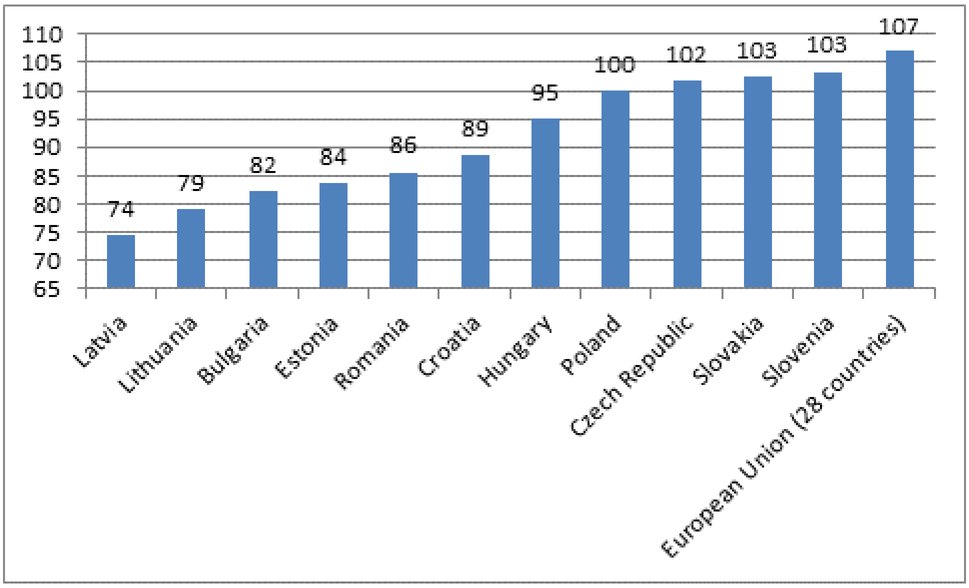


Figure 5. Change of population between 1990 and 2015 (1990=100) (Source: Eurostat demo_gind)

Population figures demonstrate that there was no general demographic pressure on housing market: fertility in NMS is low, and out-migration has not been counterbalanced by immigration.

Table 5. Total fertility rate, 1960–2015 (live births per woman)

	1960	1970	1980	1990	2000	2010	2013	2014	2015
EU-28 (1)	-	-	-	-	-	1.62	1.55	1.58	1.58
Bulgaria	2.31	2.17	2.05	1.82	1.26	1.57	1.48	1.53	1.53
Czech Republic	2.09	1.92	2.08	1.90	1.15	1.51	1.46	1.53	1.57
Estonia (2)	1.98	2.17	2.02	2.05	1.36	1.72	1.52	1.54	1.58
Croatia	-	-	-	-	-	1.55	1.46	1.46	1.40
Latvia	-	-	-	-	1.25	1.36	1.52	1.65	1.70
Lithuania	-	2.40	1.99	2.03	1.39	1.50	1.59	1.63	1.70
Hungary	2.02	1.98	1.91	1.87	1.32	1.25	1.35	1.44	1.45
Poland (4)	-	-	-	2.06	1.37	1.41	1.29	1.32	1.32
Romania	-	-	2.43	1.83	1.31	1.59	1.46	1.52	1.58
Slovenia	-	-	-	1.46	1.26	1.57	1.55	1.58	1.57
Slovakia	3.04	2.41	2.32	2.09	1.30	1.43	1.34	1.37	1.40

Internal migration in NMS has not placed high pressure on urban housing markets in the last decades. According to Eurostat data, in EU-13 (new CEE member states plus Malta and Cyprus) the urban population increased by 0.6 percent between 2001 and 2011, while in EU-28 it increased by 3.8 percent.[6]

[6] http://www.pbl.nl/en/infographic/migrants-move-to-cities

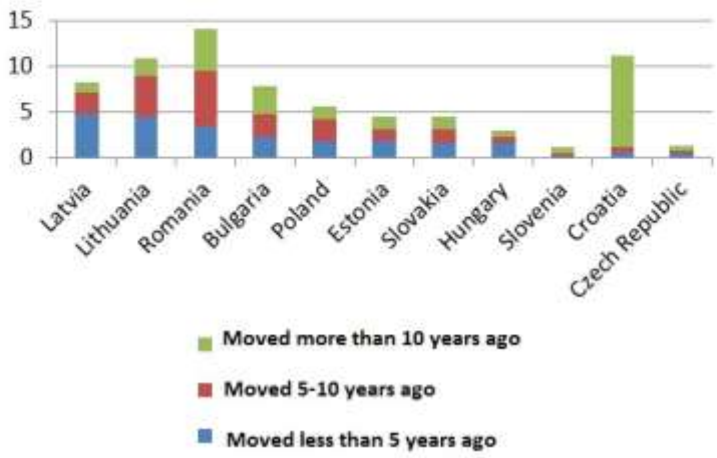


Figure 6. Share of people living in other EU countries as percentage of the country population aged 15-64 (Source: Lakatos, 2015, p. 98)

Another important trend is the increasing out-migration of the NMS population after the 2004 EU expansion round. There are no precise statistics of NMS citizens temporarily residing in old EU member states, but it is estimated that Poland, Romania, Bulgaria, and the Baltic States have been the most important source of the outmigration until 2010. Between 2000 and 2011, the population of Latvia decreased by 13 percent, and about 63 percent of this decrease was due to a negative net migration rate (Eurofond, 2014, p. 23).

Table 6. New Member States Net Migration Rates, 1992-2007 (%)

	1992-95	1996-99	2000-03	2004-07
Estonia	-17.1	-4.9	0.1	0.1
Latvia	-11.6	-3.0	-1.3	-0.5
Lithuania	-6.5	-6.1	-2.1	-2.1
Bulgaria	-2.7	0.0	-6.5	0.0
Slovenia	-1.1	0.1	1.7	3.6
Romania	-0.9	-0.5	-6.1	-0.3
Poland	-0.4	-0.3	-3.0	-0.5
Slovak Republic	0.3	0.3	-0.9	0.8
Czech Republic	0.9	1.0	0.0	4.2
Hungary	1.7	1.7	1.1	1.7

Source: Eurostat and IMF staff calculations (Bem & Schellekens 2008. p.8)

Similarly high negative net migration is estimated for Lithuania and Estonia. It is estimated that between 2004 and 2007 two million people – or 5.3 percent of the population – left Poland, while Lithuania was the country which had seen the largest number of the outgoing migrants relative to the size of the labor force.[7] After 2010, out-migration from Hungary also increased substantially. These emigration patterns have an important effect on the housing market in target countries, because the typical migrants are young families ("youth drain"), who are the most active on the housing market. After the EU enlargement round in 2004 about 200,000-250,000 foreign residents arrived each year to the EU-15 old member states from the NMS-8 (CEE countries which joined the EU in 2004), with Latvia, Lithuania, and Poland being the most important source of migrants.

[7] http://www.migrationpolicy.org/article/free-movement-europe-past-and-present

Regarding the main destination countries, those who opened up their labor market early on and had no other significant barriers, such as language, were the most popular ones (e.g. the United Kingdom and Ireland) and strong migration networks were established fast. Due to the massive influx of migrants from NMS, after the 2007 enlargement round these countries implemented stricter labor market restrictions for Romanian and Bulgarian citizens, who then choose Italy or Spain as country of destination in greater numbers (Bem & Schellekens, 2008, p. 7-8).

2.3 Social and regional inequality

On average, NMS spend between 15 and 25 percent of their GDP on social provisions, which is below the EU average.

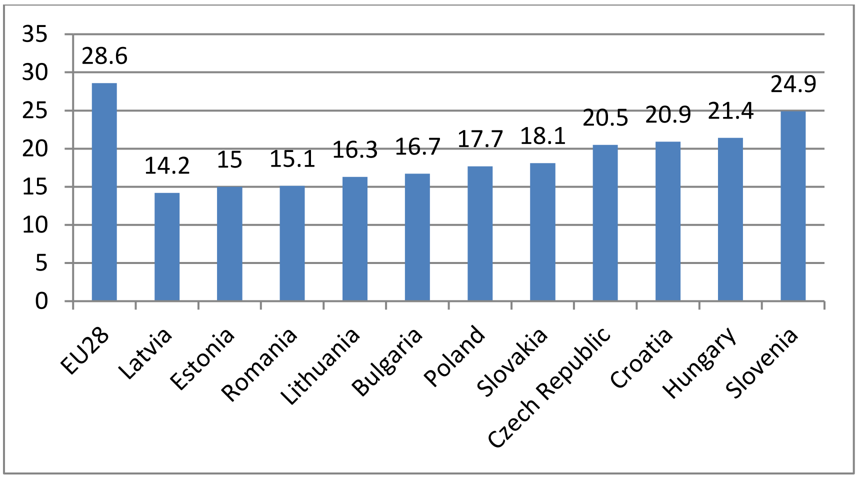


Figure 7. Share of social protection expenditures to the GDP, 2012 (Source: EU Statistics, YB16.png)

One of the most notable changes after 1989/1990 was the steep increase in social inequality in transition countries, which is a starting point of social housing policy. Based on member states' Gini coefficients, income inequality is not extremely high in the NMS compared to other EU countries; however, with a handful of exceptions, the increase from early 1990s to the present day has been dramatic.

Table 7. Gini coefficient in NMS – major trends from the late 1980s to 2015

	1987-1990	1996-1998	2007-2008	2015
Bulgaria	0.23	0.41	0.45	0.37
Czech Republic	0.19	0.25	0.26	0.25
Estonia	0.23	0.37	0.36	0.35
Hungary	0.21	0.25	0.31	0.28
Latvia	0.24	0.32	0.36	0.35
Lithuania	0.23	0.34	0.38	0.38
Poland	0.28	0.33	0.34	0.31
Romania	0.23	0.3	0.31	0.37
Slovakia	0.22	0.3	0.26	0.24
Slovenia	0.22	0.3	0.31	0.25

Source: Mitra, 2001 p. 9; Wikipedia (Gini coefficients by country); EU SILC 2015

There are important differences among the countries, but it is difficult to conceptualize the differences based on the indicators. With the drastic withdrawal of the state, market actors have come to dominate economies. Income inequalities have grown drastically; the difference between the average income of low earners and high earners was large even at the time of the regime change, but grew significantly over the past decades. The long term stagnation of incomes and continuous rise in income inequality has led to the expansion of the social strata facing daily financial troubles, clearly shown by various poverty indexes. Institutions of social solidarity have shown slow development. State withdrawal often also meant welfare cuts, with some forms of provision now being more limited than in old "capitalist" countries leaving some of the deprived population without any provision, which is underpinned by an apparent low political support for social solidarity.

Table 8. Inequality indicators for NMS, 2008, 2015

	Relative median at-risk-of-poverty gap (tsdsc250), %		Inequality of income distribution - Income quintile share ratio (tsdsc260)		At-risk-of-poverty rate before social transfers (pensions included in social transfers)*	
	2008	2015	2008	2015	2008	2015
EU (28 countries)	-	24.8	-	5.2	-	44.6
Bulgaria	27	30.3	6.5	7.1	40.0	42.9
Czech Republic	18.5	19.2	3.4	3.5	37.6	37.0
Estonia	20.3	21	5.0	6.2	36.3	39.4
Croatia	-	26.4	-	5.2	-	45.2
Latvia	28.6	25.5	7.3	6.5	37.7	40.9
Lithuania	25.6	26	6.1	7.5	39.6	42.8
Hungary	17.3	21.8	3.6	4.3	52.1	49.1
Poland	20.6	22.3	5.1	4.9	44.1	43.6
Romania	32.3	38.2	7.0	8.3	49.2	49.5
Slovenia	19.3	20.3	3.4	3.6	38.5	42.5
Slovakia	18.1	28.9	3.4	3.6	37.5	38.1

* EU-SILC survey [ilc_li09]

A striking form of social inequalities is often manifested along the ethnic dimension, a problem where the process of social marginalization is exacerbated by discrimination against an ethnic group (Beblavý, 2008). In the NMS the Roma population suffers historically from severe discrimination and exclusion in nearly every dimensions of life, which especially causes significant social tension in five NMS countries with high share (2-10 percent) of Roma in the total population (Bulgaria, Czech Republic, Hungary, Slovakia, and Romania). The inequalities of the Roma population have been sustained by exclusion mechanisms on the labor and housing market, and a wide range of public services, which reproduce their marginalized position. The countries' welfare systems, lacking systematic interventions to break such mechanisms, are not able to improve their situation, and this is especially true in the field of housing interventions. The housing situation of marginalized Roma are far worse than the national average, many families live in substandard, severely overcrowded units in segregated settlements. Another feature of Roma related social inequality problem that the majority of marginalized Roma people live in rural areas (with the exception of the Czech Republic) where they have little chance for labor and housing market integration.

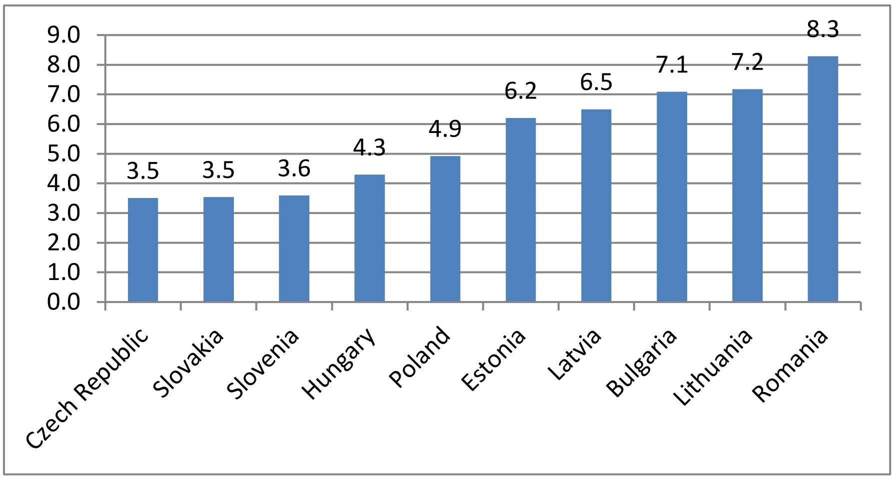


Figure 8. S20/S80 in NMS: share ratio of the lowest income and the highest income quintile

Source: Dauderstädt and Keltek (2017:2)

The regional aspect of inequality also became more emphatic in the post-transition period: populations with a better background and opportunities are concentrated in the dynamically growing areas (urban hubs and more developed regions), while disadvantaged groups are more heavily represented in shrinking regions with a poor market position. Welfare systems have been slow to adapt to changing social realities. Low quality but widely used social provision forms (child care support and institutions, welfare services etc.) became reduced or restricted, and financial support to households is unable to substantially compensate for the income decrease of poor households. Besides the slow development of the welfare sector, income benefit transfers are weakly targeted due to the unreliable information of household incomes (particularly due to the important role of the informal economy).

Table 9. Regional inequality in selected countries, 2014

Country	**Unemployment rate % (2014)**		**Education: labor force with at least upper secondary education, %, 2014**		**Disposable income per capita (in USD PPP), 2013**	
	Top quitile	Bottom quintile	Top quintile	Bottom quintile	Top quintile	Bottom quitile
Czech Republic	3.6	8.7	97	92	14785	10 758
Hungary	5.1	11.5	91.8	82.7	11500	8 485
Poland	7.4	11.5	95.6	90.8	13860	9 968
Slovak Republic	8.1	16.6	95.7	92	17570	9660
Estonia	5.3	11.2	93.4	85.6	10 523	6 551
Slovenia	8.1	11.1	89.4	86.6	14 673	14 673

Source: OECD (2016) http://www.oecdregionalwellbeing.org/

2.4 Conclusion: beyond the divergence-convergence dilemma

The transition process started with a convergence trend among the (then and would-be) EU member states, whose pace and effectiveness varied among the countries and changed in time. The position of the countries in this process changed, but the inequality rates and the asymmetric demographic changes (in comparison to old EU states) have been striking.

In the first part of the study we concluded that there are important similarities among the NMS countries, but in the same time we have seen that the based on the differences of the economic-social indicators we can classify the countries in four groups (though the indicators vary not always in a consistent way):

- Czech Republic, Slovenia and Slovakia are the most developed countries within the region, with a stable population and lower labor force outmigration; a relatively small level of social inequality; and high expenditures on social protection.
- On the other extreme, Bulgaria, Romania and partly Croatia have a lower level of economic development, have been facing a high population loss, partly due to high labor force outmigration, and have low expenditures on social protection.
- The Baltic countries have approximated the per capita GDP levels of the more developed NMS thanks to their intensive economic growth, but they have been suffering a huge population loss, and have high inequality levels, low expenditures on social protection.
- Poland and Hungary "is in the middle": they showed good economic performance at the beginning of the transition process, which turned uneven around 2000. Poland has a more stable economy, but has high labor outmigration; whereas Hungary's economy suffered greatly after the GFC, and recovered very slowly. Inequality is relatively low in both, high expenditure on social protection.

3. Housing sector and housing policies in NMS

3.1 The periods and the main stream approach to restructure the housing sector

In the last 25 years housing policy in the New Member States went through three major periods. The first period lasted until the end of the transition recession of the 1990s, characterized by rapid privatization, the management of "old loans" (state sponsored housing loans, which at this point generated massive losses for central budgets), and the establishment of new housing policy institutions (privatized construction sector and financial/housing finance sector). The second period lasted roughly between 2000 and 2008: mortgage markets began to gain momentum, and housing investment increased in a quite volatile macroeconomic situation – accompanied by intensive growth before the crisis, and a downturn or stagnation after 2008. From 2008, most NMS construction sectors and housing markets collapsed, with a market downturn which varied by country depending on the rate of the economic crisis, although within a few years every NMS returned to the development path it had taken in the early 2000s. The NMS faced many similar housing policy challenges, and followed policy paths with several common elements, although, similarly to their welfare system development, their differences should not be neglected.

The mainstream approach in housing policy proposed that all of aspects of NMS housing sectors (legal, financial etc.) should undergo systematic reform, thus freeing the housing market from the control of the socialist state. This normative approach dominated housing research in the early 1990s, based on the "enabling markets to work" approach of the World Bank (World Bank, 1993). It aimed to identify and describe well-defined legal institutions (property rights, building regulations, flexible planning structure etc.) and market institutions (housing finance systems, property management etc.), and to introduce targeted social programs. The ideal housing model was a housing system in which market mechanisms dominate the production, allocation and consumption of housing, with strong competition among agents and institutions in the interrelated markets for housing finance, resources and services; and governments provide subsidies that are relatively transparent, progressively targeted, and budgeted in a sustainable manner (see for example Hegedüs et al., 1996; Pichler-Milanovich, 2001; Buckley and Tsenkova, 2003; Tsenkova, 2009).

However, subsequent studies have shown that the transformation was not such a clear-cut, linear process. In order to better describe what actually happened, we distinguish three main factors which are significant for the analysis of the transition: (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.

The market creation strategy could be implemented without difficulty in sectors where there were no basic social barriers to major change (the construction industry, production of and trade in building materials). However, in the area of housing services (water, heating, etc.) and housing finance, the introduction of market mechanisms created social conflicts arising from price liberalization, enforcement of foreclosures, evictions due to non-payment, and unaffordable user charges.

The most important market correction strategy was the creation of social benefit programs which narrowly target households in economic hardship. However, it is very difficult to run these programs efficiently, because the low public administration capacity and the significance of the informal economy make it hard to gather reliable information on households' incomes. Social housing programs as a market correction mechanism had a low priority until the end of the 1990s.

The "political stasis factors" play an important role in decreasing and postponing the social conflicts of the transition. In the field of housing, which is particularly liable to social conflict, there has been a temptation to retain the popular elements of the socialist housing system: across-the-board subsidies which maintain rent levels below the actual cost of rent; public management companies; price control of energy costs; and a lack of retribution for non-payment (eviction evasions). Furthermore, these factors do not only contribute to the conservation of the status quo - they often have a regressive redistributive effect, as in, for instance, the reluctance to develop means-tested benefit programs; or the massive support for homeownership in the form of mortgage subsidies and contract savings schemes.

First, we give an overview of three areas of the housing sector which shows the characteristics of the tree periods, followed by an overview the main elements of social housing policies.

3.2 Housing situation in the NMS (in the context of EU)

Historical similarities among CEE transition countries have crucial implications for their existing housing stock; and “path dependence” in this case does not only mean the rigidity of the existing structures – both built and institutional – of housing, but also the relatively slow development of the factors influencing housing outcomes. Moreover, historical similarities do not only cover their shared communist/socialist past, but to some extent also the semi-peripheral position of these countries on the European geopolitical scene before state socialism.

Table 10. Basic housing market indicators in the three groups of EU member states

		Core – Western and Northern Europe	Periphery I. - South Europe	Periphery II. - new member states	Total
I19	House price (EUR/m^2)	3,149	1,928	1,058	2,433
I20	Rent (EUR/flat/month)	565	396	263	502
I21	Mortgage/GDP ratio (%)	61	38	17	52
I22	Movers (share population having moved to another dwelling in past five years), (%) 2014	26	11	7	18
I23	N of transaction as % of the stock, 2013	5.9	4.0	2.1	4.3
I24	New construction per 1000 inhabitants, 2007	3.8	7.7	3.2	4.8
I25	New construction per 1000 inhabitants, 2013	2.7	1.7	2.5	2.4
I26	Share of social housing, (%) 2012	14	6	3	10
I27	Share of owner occupied housing (%), 2013	62	75	87	70
I28	Average number of rooms per person, 2014	1.8	1.6	1.1	1.6
I29	Average size of the dwelling, 2014 (m^2)	97.3	96.5	69.3	91.5
I30	Single family house floor space per capita (m^2)	41.0	50.0	26.0	41.1
I31	Apartment floor space per capita (m^2)	31.0	36.0	20.0	30.6

As a result of the commonly used housing strategies within the East European Housing Model (EEHM), typical in NMSs before the transition (although with local variations), the housing stocks had a number of similar characteristics at the start of transition, some of which still influence the current stock. The case of low quality, mass-constructed pre-fabricated housing blocks is a well-known one, although both their share and quality varied greatly in the region. Their share was the lowest in Bulgaria, while reached over one third of the entire dwelling stock in the Czech Republic. They were also more common in urban and industrial hubs; the share of dwellings in system-built blocks was 38 percent of the entire urban dwelling stock in Budapest, 55 percent in Ljubljana, 56 percent in Warsaw, 77 percent in Bratislava, and 82 percent in Bucharest. Besides massive state level investments in the mass-production of modest quality system-built housing, and other generous, although very inefficient subsidy forms (e.g. widespread, heavily subsidized public rental housing), the housing stock suffered from systematic underinvestment, lack of maintenance, and fell into physical disrepair over decades. The maintenance and development of the existing stock was usually largely ignored or very poorly executed throughout the decades of communist rule in the region. At the moment of transition, the majority of housing built before the state socialist period needed massive investments; but at this point many of the relatively new buildings also needed renovation due to their poor design and implementation. As new construction output plummeted across the region in the 1990s, dropped further after 2008, and remained very low compared to pre-transition levels, higher quality new construction only very slowly improves housing indicators in CEE countries.

The massive retrenchment of the state from housing production and subsidization was accompanied by massive privatization of public housing and restitution of the previously nationalized buildings and dwellings, partly to attract private investment into the stock. However, due to the initial transitional recessions throughout the region, followed by the relatively modest "catching up", the available funds both private and public actors can invest into housing remain limited in an EU comparison. Moreover, housing policy has been a largely ignored field throughout the CEE region, partly as EU accession usually required greater policy attention to a large number of other fields, and partly because political will or capacity for improving housing, other than providing varying level incentives for private construction, and channeling EU funding into energy efficient renovation, appears very low overall.

Table 11. Basic housing affordability indicators in the three groups of EU member states

		Core – Western and Northern Europe	Periphery I. - South Europe	Periphery II. - new member states	Total
I32	Overcrowding rate (%, 2014)	6.9	17.7	41.1	16.7
I33	Share of population living in a dwelling not comfortably cool during summer time (%)	12.5	27.4	25.9	19.1
I34	Severe housing deprivation, 2014 (%)	2.0	6.0	11.7	5.0
I35	Severe housing deprivation by first income quintile, 2014 (%)	5.5	12.1	26.4	11.5
I36	Share of housing costs in disposable household income, 2014 (%)	23.6	20.0	23.0	22.6
I37	Share of the housing cost among households below 60 % of the medium income, 2014 (%)	44.9	39.8	39.3	42.5
I38	Housing cost overburden rate by age, sex and poverty status (source: SILC) [ilc_lvho07a] (%)	11.2	12.0	11.0	11.3
I39	Housing cost overburden rate among the lowest incomee quintile, 2014 (%)	35.2	40.5	33.4	36.2
I40	Arrears -- Percentage (%) of total population with arrears on key commitments (mortgage or rent, utility bills or hire purchase/other loan payment), by Member State (2011)	7.7	13.1	18.8	11.3

As a result of these processes, overall housing quality in CEE lags seriously behind old member state standards, and this also heavily influences the notion of "socially acceptable" living conditions. This is expressed in the average size of dwellings and in overcrowding rates, but also in the average quality of housing. However, due to the overall lower level of housing consumption, this does not show up in the relatively simple approach of affordability, measuring household income to housing expenses, as this smaller and lower quality housing often demands a share of household incomes comparable to averages in EU member states with higher average incomes and higher housing consumption (higher quality housing).

3.3 The development of the housing sector

3.3.1 Housing privatization

Most NMS implemented some form of "giveaway" privatization, with sitting tenants often paying as little as 15 percent of the market price of the dwelling they inhabited. Countries introduced different schemes to help tenants finance housing purchases, including issuing vouchers (Estonia, Latvia), compensation shares (Hungary), special loans, or advance payment schemes. While most countries imposed a time limit on privatization, the pace of implementation varied widely. The deadline was extended in a number of countries including Hungary, Romania, Latvia and Slovenia extended 'right to buy' legislation. The privatization of public housing is still ongoing in countries like Romania, Hungary, and the Czech Republic, although with different conditions. To date some 75-95 percent of national public housing stocks have been sold to sitting tenants under 'giveaway' financial conditions.

After the collapse of the socialist system, former private landlords and their successors were compensated for the previous regime's confiscation of their property. The principle of restitution was adopted in every post-socialist country, but its implementation differed. Restituted apartments generally became private rentals, but countries like Croatia, Czech Republic, Romania and Slovenia drew up strong new tenant-protection laws to guarantee security of tenure and cap rent increases by the new landlords. Restitution only had a substantial effect on the tenure structure in the Czech Republic.

Table 12. Tenure structure in 1990, 2001, and 2011 in NMS

	Year	public rental	co-operative housing	private rental	owner-occupied	other	total
Bulgaria	1990	6.6	1.5		91.7	0.2	100
	2001	3		0	96.5	0.5	100
	2011	2.6	0	15.7	81.7		100
Croatia	1990	24		3.5	67.5	5	100
	2001	2.9		10.8	82.9	3.4	100
	2011	1.8		3	88.9	6.3	100
Czech Republic	1990	39.1	20.4		40.5		100
	2001	29	17.4	6.7	46.9		100
	2008	14	12.4	13	60.6		100
Estonia	1990	61	4		35		100
	2001	5.2			94.8		100
	2011	1.7		15	82	1.3	100
Hungary	1990	23		3	74		100
	2001	4		4	91	1	100
	2011	3		4	92	1	100
Latvia	1990	59	5		36		100
	2001	16	2		82		100
	2011	0.4		12.2	59.9	27.5	100
Lithuania	1990	60.8			39.2		100
	2001	2.4			94.5	3.1	100
	2011	1.6		9.8	88.6		100
Poland	1990	31.6	25.4		43		100
	2001	16.1	28.6		55.3		100
	2009	10	19.4		70.4	0.2	100
Romania	1990	32.7			67.3		100
	2001	2.7		1.1	96.2	0	100
	2011	1.5		10	88.2	0.3	100
Slovakia	1990	27.7	22.1		50.2		100
	2001	6.5	15.6	4.1	73.8		100
	2011	3	3.5	3	90.5		100
Slovenia	1990	31		1	68		100
	2001	3		7	82	8	100
	2011	6		2	90	2	100

Source: Authors' estimates based on Turner et al. (1992); Hegedüs et al. 2011; Lux (2003); Hegedüs, Lux and Teller (2013); The State of Housing in Europe, 2015

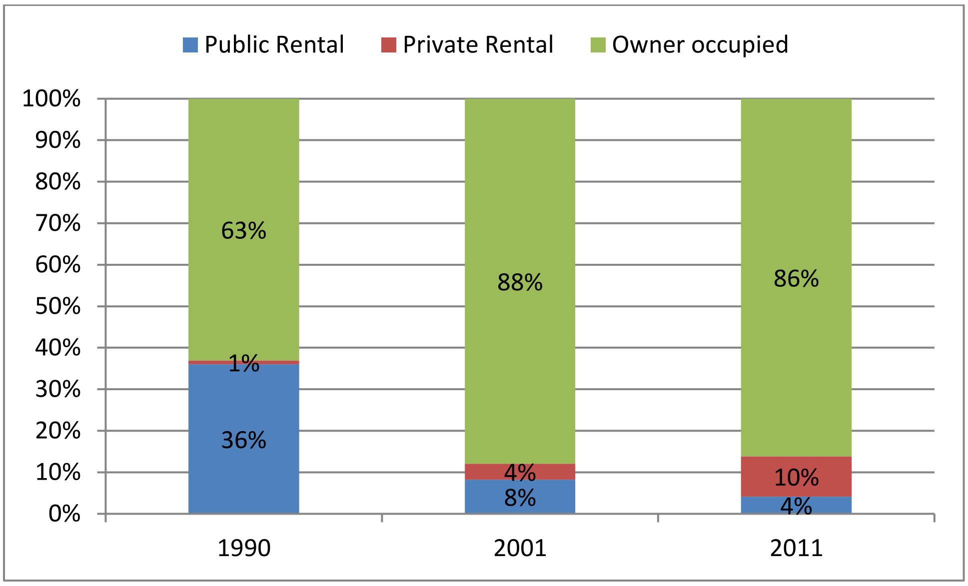


Figure 9. Tenure structure in 1990, 2001, and 2011 in NMS (weighted by total number of flats in 2013)[8]

Table 13 Distribution of population by tenure status, type of household and income group (%) (OECD Affordable Housing Database)

	Own outright	Owner with mortgage	Rent (private)	Rent (subsidized)	Other. unknown
Bulgaria	81.5	2.1	2.8	1.6	12.0
Croatia	85.8	3.3	2.1	1.2	7.6
Czech Republic	62.4	14.1	17.8	1.4	4.3
Estonia	62.6	14.6	4.2	3.9	14.7
Hungary	73.8	14.4	3.9	3.5	4.4
Latvia	72.5	7.3	8.7	4.4	7.1
Lithuania	84.2	5.7	1.6	1.8	6.6
Poland	71.3	9.8	5.1	1.4	12.3
Romania	95.5	0.6	1.0	0.9	2.0
Slovak Republic	81.1	9.0	7.8	0.2	1.8
Slovenia	67.3	8.3	6.4	3.8	14.1

Privatization and restitution had an important effect on the housing systems. Social rental sectors shrank dramatically in transition countries, and nearly disappeared in some. Privatization had a regressive social effect: the realizable financial gain was proportional to household wealth, while low income households were trapped in the residualized social rental sector and were not able to buy their homes at a discount price. The social rental sector has become residualized, accommodating the most vulnerable groups of the society; at the same time, in many countries only part of the public rental stock is operated as social housing, and the share of public rental units operating otherwise has been on increasing. As a consequence of restitution, a new private rental sector emerged in some CEE countries (most significantly in the Czech Republic), and the resulting situation became a source of

[8] Cooperatives are categorized under owner-occupation, others were split between the owner-occupied and the private rental sectors

conflict between sitting private tenants in a protected position, and new private landlords after restitution.

Table 14. Share of newly built public housing in total housing output in selected countries, 2000, 2005 and 2009 (%)

	2000	2005	2009
Czech Republic	11.5	8.4	2.0
Estonia	0.1	0.0	4.5
Hungary	1.0	1.7	0.6
Latvia	0.0	0.0	0.9
Poland	6.8	8.3	6.5
Romania	n.d.	8.9	3.9
Slovak Republic	11.6	14.2	12.5
Slovenia	8.6	7.0	4.7

Sources: EU Housing Statistics 2010, National Statistical Offices.

The social impact of the privatization and restitution was very contradictory. First of all, the proportional discount price resulted in a regressive redistribution of the housing assets in every NMS. Secondly, typically the housing stock in the worst condition remained in public (municipal) ownership, and the most vulnerable households became the typical social tenants. Social housing finance schemes placed the operational gap burden on the social landlords – typically the municipalities –, which in turn face significant financial and organizational disincentives to expand the sector. Slovakia and Poland (see Table 14) are the two exceptions, where the share of municipal housing investment is equal or larger than the share of municipal housing within the full housing stock. (These investments are heavily subsidized by the central budget through soft loans and cash subsidies.)

3.3.2 Housing finance: mortgage market development

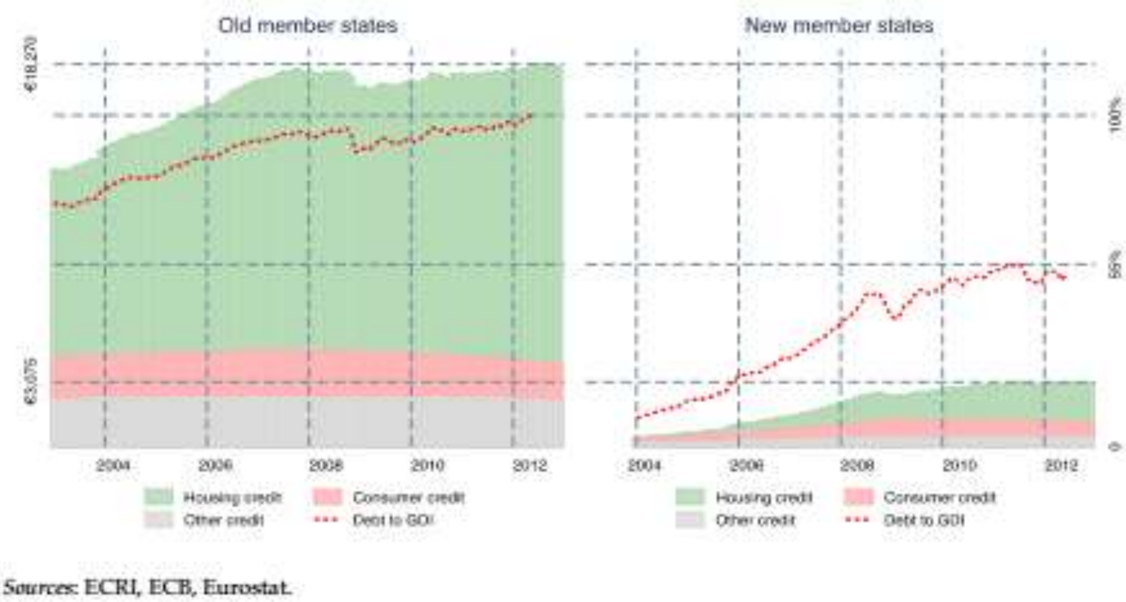


Figure 10. Real household debt per capita and leverage to gross disposable income in new and old member states (Source: Chmelar, 2013, p. 4.)

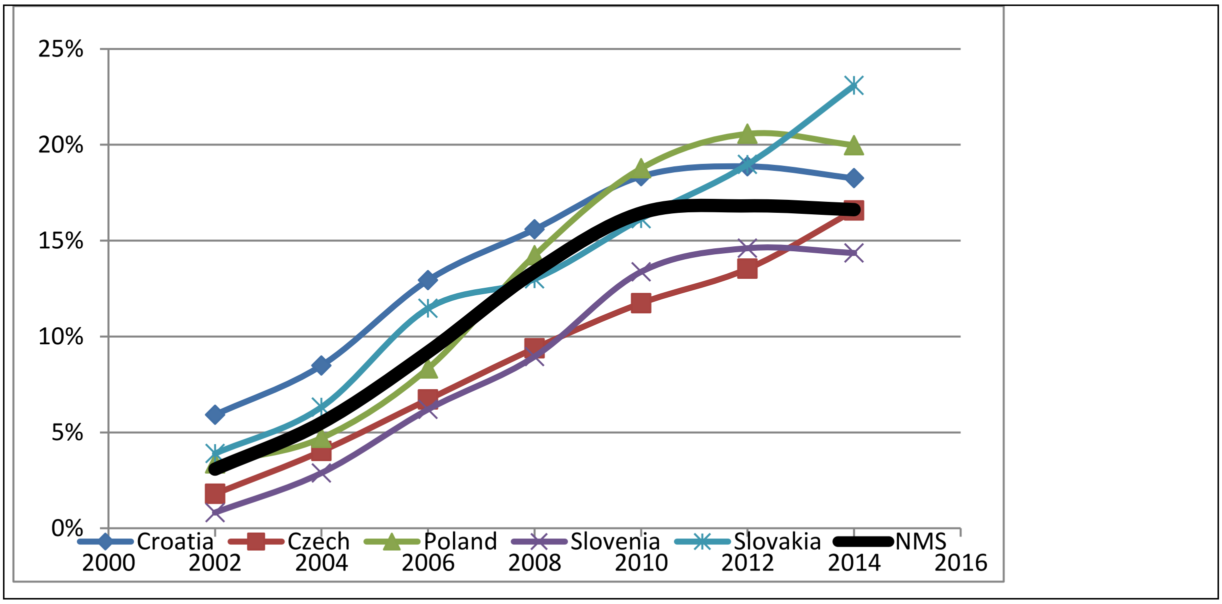
The state dominated housing finance systems collapsed in 1990, and it took 10-15 years – and top-down policy intervention – for market based mortgage lending systems to develop. The new privatized banking systems began to offer mortgage products around 2000, after which the mortgage markets in CEE countries began to expand dynamically, indicating that the new EU member states were on the path to catch up with their more developed counterparts. The share of the outstanding mortgage loan to GDP ratio in CEE countries increased substantially in the 2000s. Relatively inexpensive (but high risk) foreign currency mortgage loans became popular in many CEE countries, most often denominated in Euro or Swiss Franc (e.g. in the Baltic States, Croatia, Hungary, Poland, and Romania). As a result, household indebtedness increased swiftly in the region in the 2000s.

Table 15. Housing Loan to GDP ratios in New Member States (%)

	2002	2004	2006	2008	2010	2012	2014
Bulgaria	0.7	2.6	7.0	10.4	10.1	8.7	8.3
Croatia	5.9	8.5	12.9	15.6	18.3	18.9	18.3
Czech	1.8	4.0	6.7	9.4	11.7	13.5	16.6
Estonia	7.6	15.4	31.6	37.6	40.6	33.1	31.1
Hungary	4.8	10.4	15.0	23.2	25.2	20.2	16.6
Latvia	4.2	11.2	26.9	29.5	36.4	24.0	19.5
Lithuania	2.2	6.9	12.4	18.5	21.4	17.4	16.4
Poland	3.4	4.7	8.3	14.2	18.8	20.6	20.0
Romania	1.0	1.4	2.2	4.0	5.3	6.6	6.7
Slovenia	0.8	2.9	6.2	9.0	13.4	14.6	14.4
Slovakia	3.9	6.3	11.5	13.0	16.1	19.0	23.1

Source: European Mortgage Federation (Hypostat)

The pace of mortgage market development varied by country, as well as the precise institutional setup and the most popular mortgage products.



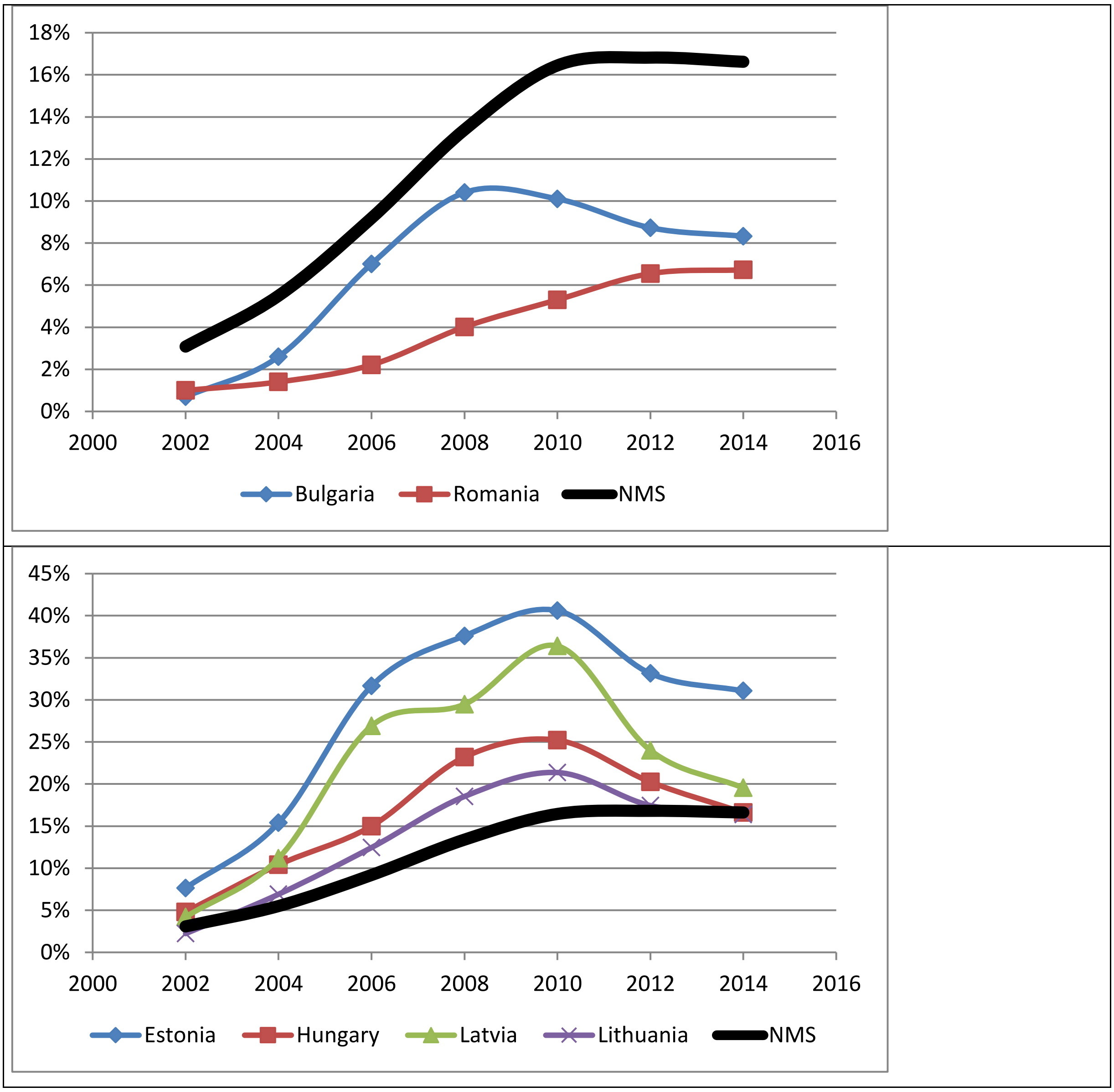


Figure 11. Main types of mortgage market development in NMS 2002-2014 (share of mortgage to GDP in %)

By the late 1990s, housing prices began to increase steeply as a consequence of economic stabilization, affected by a variety of factors in each country. Decreasing interest rates after 2000 made retail housing loans more affordable in most of the CEE region, which led to an increased demand for housing investment for households. However, there were concerns that stronger demand could generate further house price increase, and possibly even a house price bubble, that would again worsen affordability. The price increase was a response to economic growth and the increased availability of housing loans, where, because of inflexible housing output, supply could not keep up with demand. The development of house price bubbles in the Baltic States was related to the speculative demand for housing without substantial increase in the supply. The rigidity of supply could trigger price increases, which could control excess demand, as in the case of Poland and Slovenia. Elsewhere (e.g. in Hungary) excess demand did not cause a sharp increase in housing prices. Increasing market prices combined with flexible mortgage lending led to an extreme rise in outstanding loans in the Baltic States, especially Latvia and Estonia, where the loan to GDP ratio surpassed 30 percent (see Table 15). The share of foreign currency denominated mortgage loans, which strongly increased the vulnerability of countries to external shocks, was typically about 40 percent within the full loan portfolio in 2006, with some important exceptions (e.g. the Czech Republic). After 2008 the crisis and recession curbed market development, although financial institutions continued mortgage financing in a more prudent way (Darius, 2016)

The prevalence of foreign currency loans was closely linked to the fiscal situation of the economy, specifically the size of foreign loans, especially because in countries with high foreign deficit the difference between the interest rate on FX loans were significantly lower the interest rate of loan issued in national currency (the Baltic countries, Hungary, and Poland).

Table 16. Share of the FX loan as a % of the GDP

	BL	CR	ES	HU	LI	LV	PO	RM	SL	SR
2004	1	0	13	1	3	10	3	0	3	0
2005	2	0	21	4	7	19	4	3	6	0
2006	3	0	31	7	8	30	6	5	8	0
2007	5	0	35	11	13	35	7	9	3	1
2008	8	0	40	17	17	35	10	11	4	1

Source: Barell at al, 2009

3.3.3 Housing investment – new construction

Housing investment decreased in the NMS after the transition, but around 2000 the investment level began to pick up, and the investment cycle followed the macroeconomic trends in most of the countries, with a conjuncture period until 2007/2008.

Table 17. Total number of dwellings completed during 1990-2013 (in 1,000 dwellings)

	1990	1993	1997	2002	2008	2013
Czech Republic	45.2	31.5	17.0	27.7	38.4	25.2
Hungary	43.8	20.9	28.1	31.5	36.1	7.9
Poland	134.6	94.4	73.7	97.6	165.2	145.4
Slovakia	20.5	14.0	7.2	14.2	17.2	n/d
Slovenia	7.8	7.9	6.1	7.3	10.0	3.5
Estonia	7.6	2.4	1.0	1.1	5.3	2.1
Latvia	13.3	3.8	1.5	0.8	8.1	2.2
Lithuania	22.1	8.2	5.6	4.6	11.8	3.5
Bulgaria	26.0	11.0	7.5	6.2	20.9	9.3
Romania	49.1	30.7	31.5	28.0	40.1	42.6
Croatia	18.6	8.3	12.5	11.0	8.1	4.9

Source: EU Housing Statistics, UNECE, National Statistical Institutes

Construction trends differed by country, although the key trends – a massive drop in the 1990s, and upsurge between 2000 and 2008 and a downturn after 2008 – were largely the same in the CEE region.

Parallel with mortgage market development, housing construction also increased, and had stabilized in most countries by the time of the crisis in 2008 at a level below the European average due to the demographic reasons discussed above.

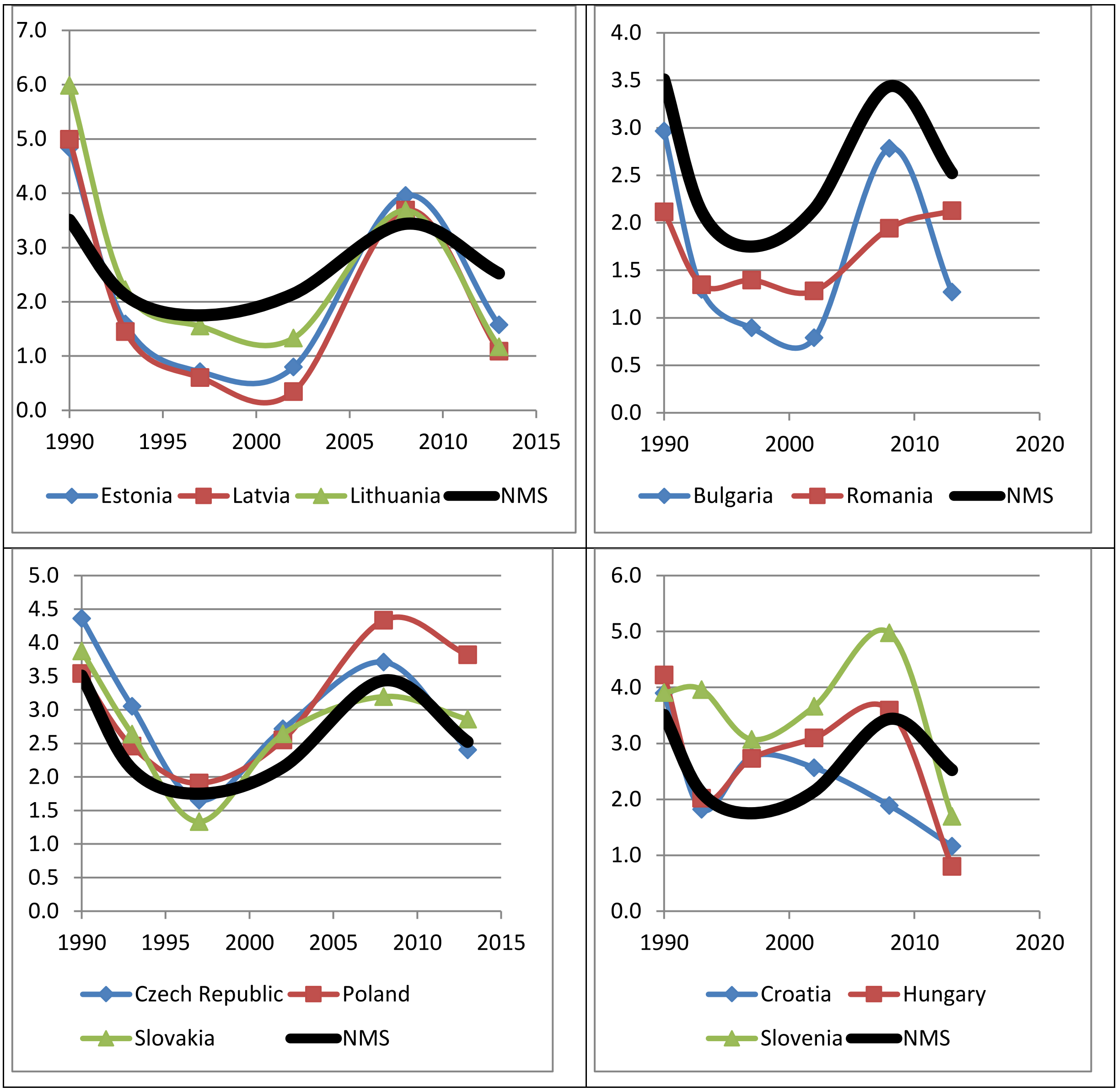


Figure 12. New construction in NMS between 1990 and 2014 (new units per 1,000 inhabitants)

Major differences emerged between NMS countries, partially explained by macro-economic factors. The pace of housing construction also differed between NMSs, depending on the country's level of economic development and the development of mortgage lending. Four groups of countries can be differentiated, showing characteristically different and quite clear patterns (See Figure 12.).

3.3.4 Housing management

As a consequence of privatization and the transformation of property management for multi-unit buildings after the transition, the owners of the apartments – having different financial and cultural background and different aspirations – faced new challenges in multi-unit building management (how to plan, set up a condominium budget, allocate the costs, collect condominium fees etc.). The management of multi-unit buildings has changed not only because of the privatization process, but also because of the transformation (and later dissolution) of state-owned management companies. In most countries, a process of "management privatization" was launched, whereby the control over common facilities and the infrastructure of multi-unit buildings (common parts like elevators, staircase, as well as shared services like waste management, cleaning and maintenance of the common parts etc.) was devolved from local governments to tenants, organized in condominium-like homeowners' associations. In the privatization process, the predominant majority of tenants became owners, and measures were launched to familiarize new owners with a "sense of ownership", after relying on state-owned building management services for decades. The challenge was therefore to build cooperation and initiative among new owners in the area of maintenance, renovation, and common use; and to organize community-based decision making. These activities were unknown during the socialist period, and the new owners – who typically lacked knowledge and experience in property management – had to develop the capacity to manage these issues within emerging legal and institutional frameworks. In many transition countries, after the brunt of the privatization process played out, many new owners were able to operate home owners' associations efficiently, but improvement was very slow due to ineffective legal regulations, lack of effective support or incentives, and – in some cases – the voluntary nature of such associations.

The quality of the high-rise prefab housing estates built between the 1960s and late 1980s varies greatly between different post-socialist countries. Broadly speaking, the former Yugoslavia, Hungary, and Czechoslovakia (the Czech Republic and Slovakia since 1993) represent countries with a higher quality building stock; while Romania, Bulgaria, and the Baltic states constitute the lower end of the overall quality spectrum. High-rise, prefab housing estates generally formed a quite deteriorated part of the urban housing stock, although this trend is changing in numerous locations thanks to subsidized renovation programs; while severely run-down traditional buildings must also receive attention. Moreover, much of the CEE housing stock had long been neglected by 1989/1990, and much of it needed urgent repair due to systemic defects (addressing disrepair due to long term neglect absorbed the first waves of subsidized housing investment in many CEE countries). Management companies have particularly neglected the maintenance of the building stock in the "new built" housing estates, and in some cases no maintenance has been provided for condominium buildings since the very beginning of their existence, since they have continued to be regarded as new stock.

The housing stock in this region mostly consists of energy inefficient multi-family pre-fabricated housing blocks, with little renovation. The share of multi-family dwellings in Central European countries is similar to the rest of Europe. What differentiates them is the significantly higher rate of owner occupied dwellings. While most properties are now privately owned, there is little sense of ownership, and a reluctance to renovate poorly performing buildings.

3.3.5 Social housing policies

Under the global structural conditions (partly described above) countries developed their specific institutional structures for housing, which include different government agencies, private sector organizations (banks, developers, construction companies, etc.) and non-profit institutions. However, the programs and networks based on the cooperation of the different housing sector agencies have not been stabilized; it is therefore difficult to make generalizations with regards to the nature of the new housing regimes. There are nonetheless certain important developments in the "governance of housing", including, for instance, the fields of institutional models for social housing, housing funding systems at national levels, issues regarding condominiums, housing allowances models, and the housing programs for rehabilitation of high rise housing estates.

The development of social housing is an important element in market correction strategies. In this discussion of social housing programs, we identify four types of interventions: 1. housing allowance, 2. creation of a new social rental sector, 3. support for low-income households to access owner occupation, and 4. support for the renovation and refurbishment of owner-occupied flats (the study will discuss these programs in detail in Part 6 and in the Appendix).

3.4 Structure of the housing market and housing regimes: submarket matrix – combination of the tenure and housing provision approach[9]

However, the extent to which various housing and labor market institutions (measures, schemes, and organizations) can neutralize the stress effects of the markets strongly depends on housing regimes and the welfare regimes. We have been witnessing a very fast increase in the rent in some urban markets, or the increase of mortgage interest rates, utility cost, and other factors influencing housing affordability; the effects of which emerge in housing relations (e.g. tenant-landlord, bank-borrower, cooperative and cooperative member relations), causing serious financial stress for lower income groups. If the housing regime is dominated by institutional solutions without any safeguard against this kind of economic stress, the risk of worsening housing affordability for moderate income and vulnerable groups is very high. However, there are several solutions which mitigate the macroeconomic effects (without the aim of fully separating the housing market from economic and market processes); including progressive and balance-seeking measures such as flexible rent regulations, reserve funds for cooperatives, fixed interest rates, thoroughly regulated underwriting processes, and better use of second homes. Household income revenues are influenced by institutional factors like trade-union agreements and welfare programs (income benefit support, unemployment benefit and so forth). In countries where a significant share – in some cases, as high as 20-25% of employees – are employed on the informal market or are involuntary entrepreneurs, or 10-20% of the salary of reported workers is envelope payment (that is, informal and not taxed), the economic stress has a direct impact on households' income. If there are no efficient income benefit programs, an important share of households will face serious hardship paying their housing cost.

Social research, being too specialized, neglected the proper study of these relations. Housing policy (in a broader sense, housing regimes) have to reconsider the different housing solutions ("structures of housing provision") from a broader point of view discussed above, and have to go beyond the classification of the tenure structure (unitary or residual models.) The same is true for the labor market contract and welfare programs, where comparative analyses are needed to evaluate the different solutions in terms of how room is given for households to cope with the market stress.

At European level programs are needed based on the comparative knowledge of the interplay of housing regimes and welfare regimes to introduce pilot projects to test sustainability and evaluate the efficiency of different solutions (social housing models, rent regulations, mortgage products, cooperative housing solutions, etc.). Europe should promote housing policy and welfare measures which contribute to the social stability of the society.

From a public policy point of view it is important to identify the typical segments (submarkets) of the housing market in which the relation between the owner of the housing unit and the inhabitants are different. The definitions of the submarkets combine two main approaches of the housing literature:

[9] This chapter is based on Hegedüs (2017b)

the tenure type (public housing, private rental and owner-occupied segment), and the structures of housing provision (submarkets where the main integrating elements is the state or public sector, the market, non-traditional integration mechanism like self-help, family, friends etc.) This definition leads us to a matrix, where the cells represent the typical submarkets. In Table 18, examples are shown based on international experience, followed by a systematic classification of NMS housing practices according to the matrix.

The new element of this classification is the broader definition of social/public housing, where the main integrative element is the state or the public sphere: even in cases where the dwelling is in the private rental sector or owner occupied, it can be considered public sector integrated (such as state subsidized affordable private rentals in Germany). In this way, a mean tested housing allowance program can also be considered a state integrated sector, where tenure stability, or the lower risk level of tenants to lose the dwelling due to external factors (such as losing employment or having temporary health issues) is significantly reduced. There different schemes in the owner occupied sector as well, where the condition to the access to subsidized financial product is that the owners cannot capitalize the subsidy through selling the property or the right to use the dwelling. In this scheme the coordination or “integration” is not directly organized by the state, but the regulatory framework stipulates that the homeowners’ association must guarantee that the subsidy will be transferred to the next owner; therefore the dwelling can only serve for housing purposes, but not as an investment good.

What we are interested in is the first row, where the relation between the landlord and tenants, or the nature of the homeownership, is influenced (integrated) by the public (through different legal and financial means). For instance, the public rental sector has been created as a consequence of a long history of public investment and development with varying patterns in different European countries, and the current “end point” of this development resulted in different institutional forms:

- Municipal housing (Hungary, Slovakia, Poland): while municipally owned, and often serves the purpose of social (affordable) housing, it may also have quasi-market segments, where the rents and the allocation of the unit follows a commercial logic.
- Private rental housing integrated by the state or the public sector: different versions of the Social Rental Agencies, where the units are owned by private entities, but the rent level, the allocation, and the available subsidies are regulated by public housing policies.
- State or public sector integrated owner occupation: typically homeownership in a multi-unit building, where the property right of the homeowners is regulated by the public, typically depending on the initial subsidy (although there are examples for single-family homes integrated by the state, like the liquidation of Roma settlements).

Table 18. Market structure according to the combination of the tenure and integration mechanism

		Tenure type		
		Public Rental	Private Rental	Owner Occupation
Dominant Integration mechanism	State integrated	Municipal housing (Sweden), non-profit rental, (The Netherlands) housing association (UK)	Social Rental Agency (Belgium), Subsidized private rental (Germany)	Land-Trust (USA), cohousing schemes (UK)
	Market Coordinated	Subcontracting a part of public housing for market rent	Private rental (professional or accidental landlord)	Multi-unit building, family building with or without mortgage
	Self-help/reciprocal	Subcontracting public housing for free	Subcontracting privately owned flat for free	Self-built family houses
	Marginal/informal	homeless shelter, publicly owned segregated housing	squatting	Slums, segregated settlements

Market coordination does not mean that the rules in the sector are not influenced by the state – the appropriate legal and institutional framework is indispensable for the adequate functioning of tenure forms in this row. In the private rental sector, for instance, landlord-tenant relations could vary in a way that it would remain consistent with market coordination. Also, there are very different loan products which are consistent with market coordination, meaning that demand-supply relations are their dominant integrative forces. Market-based housing solutions are more or less self-evident. The housing tenure and organizational forms in the third row are less self-evident: in NMS it is not rare that rental rights in a municipal or public rental unit are obtained informally through transactions among family members (this is not always fully legal, but in some cases poor oversight allows for such transactions). Similar intra-family or intra-network mechanisms could play a role in finding a landlord or a tenant in the private rental sector as well. Informal or "self-help" solutions also exist in the owner occupied sector, whether it is a form of self-build housing, or if the price of a unit is covered by multiple family members, based on individual savings, selling another unit within the family etc. (which is partly the reason why outright ownership is so much more widespread in NMS than in old member states – aside of course from the relatively novelty of, and mistrust for, mortgage products). The self-help/reciprocal integration mechanism regulate the transactions on the basis of principle which cannot be put under the state or market rules, like family bases, self-help bases, sharing economy, and so forth.

Because of the importance of the homelessness, we put a fourth category into the matrix, which may be much smaller than the other categories, but its social importance is high. This (fourth) row represents the excluded situation which can be regulated by the state (for example in the form of homeless shelters), or could be entirely informal, like homelessness people living in self-built shacks or in run-down, barely habitable substandard units. Figure 13 shows the schematic structure of the weight of housing forms by tenure and structures of housing provision in old EU member states, and in NMS.

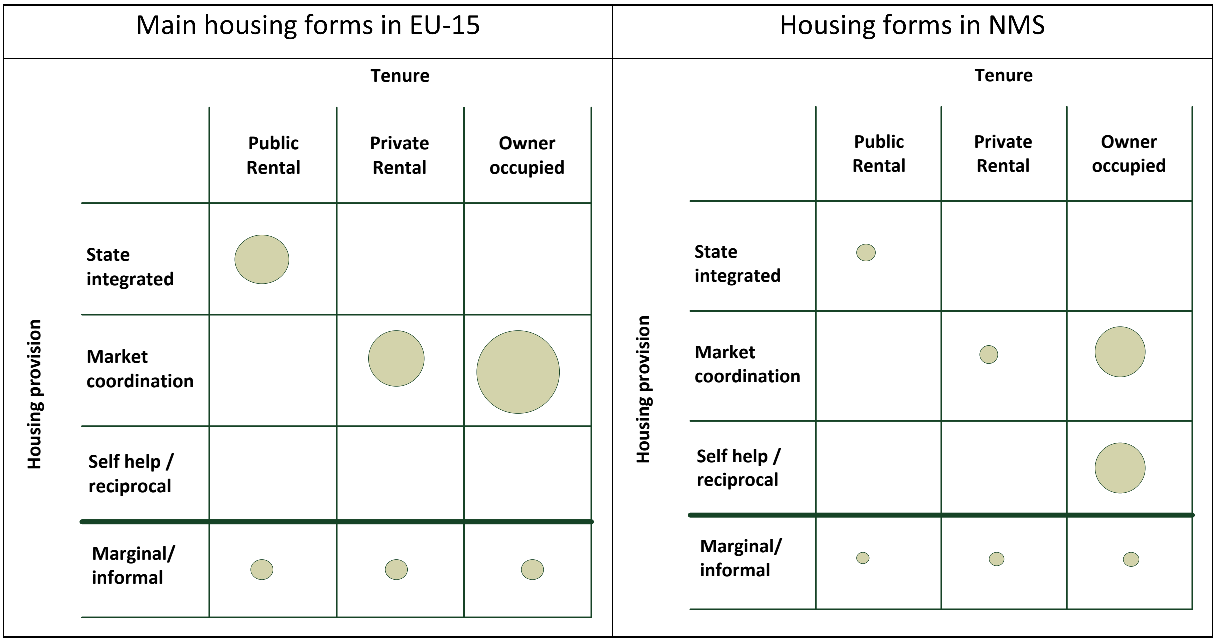


Figure 13. Schematic model of EU-15 and NMS housing forms -- illustration

The significance of this presentation of sub-markets in the EU-15 and in NMS is twofold. On the one hand, it points to alternatives to social housing programs beyond the scope and capacities of the public rental sector; and on the other, it highlight the dynamics of the housing systems, showing typical mobility patterns.

Housing regimes can be defined as the main regulations and subsidy programs in relation to the specific cell of the matrix. The precise way the public rental sector works depends on regulatory conditions and existing subsidy programs:

- Is it financed from the municipal budget? Are the costs divided between the municipalities and the state?
- Are landlord and tenant property rights adequately balanced?
- How are rents regulated?
- How high a rent and cost burden can be tolerated by a households?
- How are rent allowance programs designed?

Regulations and subsidies are important in each segment of the market, not only in the state coordinated sector. The impact of the 2007/2008 crisis and the subsequent recession in many CEE countries have shown that loosely or poorly regulated markets do not function efficiently. Under a recent EU FP7 funded research project, TENLAW (running from 2012 to 2016), legal experts, sociologists and economists prepared detailed analyses of rental sectors all over Europe, and have found that on the market-integrated private rental sector there are several versions of the landlord-tenant relations both in legal and financial terms (indicating different subsidy, tax, and rent regulatory environments), which could lead to very different conflicts, trends, and social outcomes.

Housing policy changes regulations and subsidy/tax programs for a variety of reasons, typically either due to economic policy pressures or for purely housing policy considerations. The past few decades of the Dutch housing associations or the Swedish municipal housing system are good illustrations of such a policy evolution. In summary, the regulatory environment and the existing subsidy programs influence (or in relation to the social and macroeconomic conditions determine) the typical behavior of the stakeholders, and the main processes (investments, mobility etc.) in the housing sector.

4. Housing affordability

4.1 Definitions of affordability

Housing affordability has been one of the most widely discussed topics among researchers. The concept has served a variety of different purposes historically, ranging from administrative reasons to comparative analyses (see Rosenberg 2017). Statistical sources (such as Eurostat or the OECD Affordable Housing Database) typically use a fairly straightforward measure to assess housing affordability on a macro level: the *housing cost to household income* ratio, where housing costs are considered unacceptably high if they surpass a certain percentage of a household's income. This is an arbitrary percentage of the average household income in a society or in an income quantile, usually 30 or 40 percent, above which housing costs are considered a disproportionate burden. This measure is widespread thanks to its simplicity. However, its use in international comparisons is widely criticized. For a simple description or for administrative reasons, such a measure may be useful exactly for its simplicity, but even when comparing different housing situations in a simple country it sweeps over important differences, assuming that the lower a household's income is the lower amount should suffice for their adequate housing. Under-consumption is a major issue in the context of NMS: extremely low quality (substandard) or very overcrowded housing can, in fact, technically be very affordable compared to more decent or sanitary alternatives. To refine this concept, sometimes the cost-to-income ratio is analyzed in different income quantiles, e.g. a higher share of housing costs in the lowest income quintile is considered more indicative of housing poverty (whereas, if a household in an upper quintile spend over 30 percent of their income on housing, it could simply indicate a higher, but bearable level of housing consumption rather than housing poverty). But even with this approach the usability of the cost-to-income ratio is questionable for cross-country comparison.

A more precise, albeit complicated method to assess housing affordability is through the *budget approach for residual income* (or shortly the "residual income" – RI – approach), which considers a household's disposable budget for non-shelter items once expenses for adequate housing is spent. This approach is impractical for large scale measurements, as each household in question has to be assessed individually, and it is challenging to establish a valid standard for what must be considered adequate housing (even when the term is reduced to its purest shelter function) as costs and budgets are grounded in time and locality. On the other hand, it also takes into account the *adequacy* of the dwelling, if some sort of a standard is established; while the cost-to-income approach would technically greenlight substandard housing, should its cost amount to a sufficiently low percentage of the household's income.

Moreover, the inclusion of transport costs in housing expenses is increasingly popular among researchers as well as housing advocacy groups, as living in an area remote from the job market maybe more affordable in terms of housing costs alone, but either demands costly and time consuming commuting, or might result in residents being cut off from the job market, which would be a condition of maintaining their level of affordability in the long run. In the end, when used with caution and rigor, indicators of housing affordability can serve a variety of purposes. A simple income to household expenditure ratio may be adequate for the description or for administrative purposes, and to some extent allows for interregional or international comparison (albeit with important flaws); while the residual income approach can more meaningfully point to differences in housing cost overburden, and is fit for analysis and policy recommendations.

The cost to income ratio approach – which could range from a 20 to a 40 percent benchmark – is widespread in comparative housing research despite its clear drawbacks, "partly because of the lack of suitable alternatives" (Heylen and Haffner 2010). The benchmark percentage itself is arbitrary: it is usually well adapted to a country's income and cost levels, given a certain political or policy goal, and it is perfectly appropriate to see overall trends in s single country or region; but its applicability in a range of countries with widely varying relative cost and income levels and housing stocks is highly questionable. The obvious criticisms cite that

- this ratio in itself ignores the adequacy of housing: remote, overcrowded or substandard housing may be affordable even for a low income person or family, but it is definitely not an acceptable policy goal;
- the apparent housing spending needs of a household shrink together with its income, despite housing costs being among the most rigid items in a household budget. This aspect is refined to some extent when the approach is applied to different income groups, but washes over significant cross-country differences.

Eurostat typically uses a 40 percent benchmark, and concludes that raw affordability figures are very similar in Denmark, Germany, and Romania (in each of these about 15-16 percent of the population spend more than 40 percent of their equalized disposable income on housing). Taken in itself, this washes over outrageous private rent levels and a very high outstanding mortgage rate in Denmark's markets of high quality housing, with the fact that 30 percent of households in Romania still lack an indoor flush toilet or bathroom. This simplified comparison also ignores the vast differences of a household budget in the former and the latter after housing expenses are spent – even when measured in equivalised disposable income, or Purchasing Power Standards.

Developing an adequate measuring tool for housing affordability, which also takes into consideration concepts such as the adequacy of housing, social acceptability, and social integration opportunities is beyond the scope of this study. However, we have to understand that different approaches, and different statistical concepts and tools may be necessary to understand phenomena in a cross-country level, if the countries compared are at very different development levels (in terms of economic development and incomes; quality of housing stock; welfare provisions; demographic pressure or lack thereof etc.).

4.2 Affordability in a volatile economy and housing market

In their basic form the two methods for comparing affordability provide a static image. Affordability changes in a country over time; and whether the comparison of such trends of major changes or prolonged stability in housing affordability could provide a basis for understanding the development of different housing regimes. Depending on a country's economic performance and its labor and housing market trends, as well as on its welfare and social housing policy environment, the long term affordability of housing contains a *risk factor* for lower middle income families and people living in poverty, and hence developing a method to assess "risk adjusted affordability" would be advisable.

In the globalized economic word an increasingly flexible labor market is considered an important precondition of economic efficiency and competitiveness, but is also leads to less secure employment and income for wage workers. NMS have also seen an increase in workplace flexibility; however, due to the factors analyzed in the previous parts of this study, this weakened job and income security directly translates to weaker housing affordability and security for low income households in transition countries, as their housing and welfare provision is unable to effectively respond to the emerging challenges.

The case is exacerbated by the high volatility of the housing market in most CEE countries, in terms of house prices, market rents, mortgage payment amounts, and other costs (including fuel and transportation, and to some extent utilities as well). Well-devised housing policy interventions may manage part of the housing related risks through rent regulation and rent subsidy, or regulations setting up minimum standards for mortgage products (like payment/income ratio, loan/house price ratio, or currency regulation, etc.), which would alleviate, although not entirely remove risks. For this reason we argue for replacing the static approach of assessing housing affordability with a dynamic approach, which also takes into account the likelihood with which affordability may change significantly for a household at risk.

The following economic and social facts justify in the NMS the specific features described above.

- Forced self-employment – civil contract

There was a trend where employees moved to self-employment status basically on the employers' demand (tax incentives), which meant that the labor contracts were replaced with civil contracts (sub-contracting), resulting in a more risky employment situation. The short term advantage for the employers derives from tax optimization, but employees face lower job security and can expect low old-age pension (Vaughan-Whitehead, 2007).

- Envelope wages (under the table payments) (Vaughan-Whitehead, 2007, pp. 47-49; Colin, 2009)

A relatively widespread way to reduce labor cost in the NMS is to report the employee to tax authorities at minimum wage, and pay the difference between the real wage and minimum wage in „envelope" (in cash).

- Forced part-time work (Vaughan-Whitehead, 2007)

In several countries (but particularly in Estonia and Poland) the wage level of the first job was not enough for securing the living standard, or it was hard to find a full job, and this was the main reason for taking second job.

- Unregistered (informal) work (no contract, no tax paid by the employer – no social security for the employee)
- Unemployment

Although these features are more or less general among the NMS, the share of the groups, and deepness of the poverty and the significance of the risk factor are different. The significance of this conclusion is that housing regimes have to give response to these types of challenges.

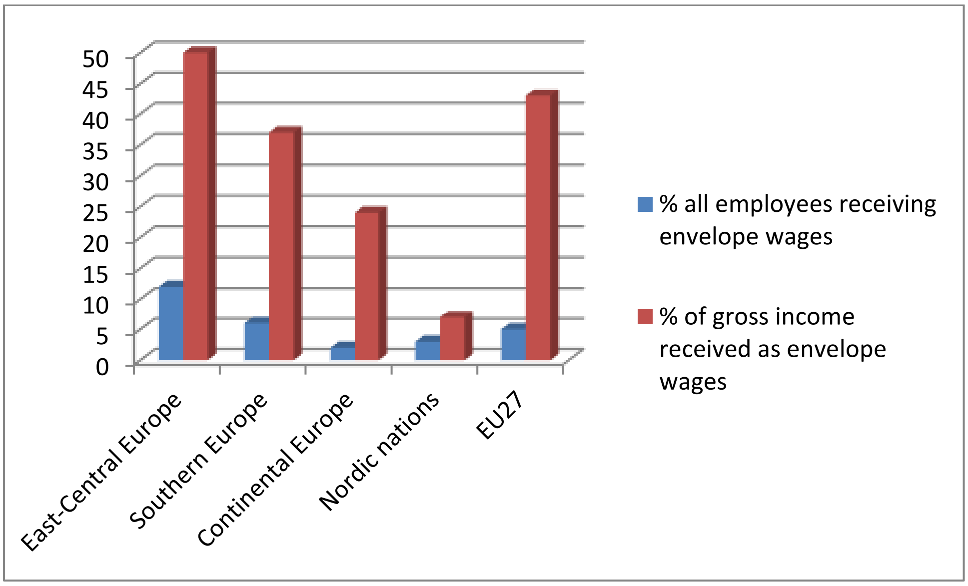


Figure 14. The significance of the envelope money, 2009 (Source: Collins, 2009),

We can illustrate this problem with a simple case which represented the main risk element in the foreign currency exchange (FX) mortgage loans, which became a huge challenge and an important source of social tension for many NMS, without measures in place to alleviate the associated risk in exchange rates for borrower households. The housing market position of households can be classified according to their level of housing consumption, and their housing security (related to the tenure status and housing contract). FX loans, denominated in stable currencies such as the Euro or the Swiss Franc, are a well-known case of a high risk arrangement: they had variable interest rates, which could be modified significantly in the short run; at the same time, borrower households had very limited information on the level of risk they were running by taking on such a loan. At the same time, in the pre-crisis period they were much more affordable: as the risks were largely placed on the borrowers, financing institutions offered these at very attractive interest rates, generating a strong demand for them.

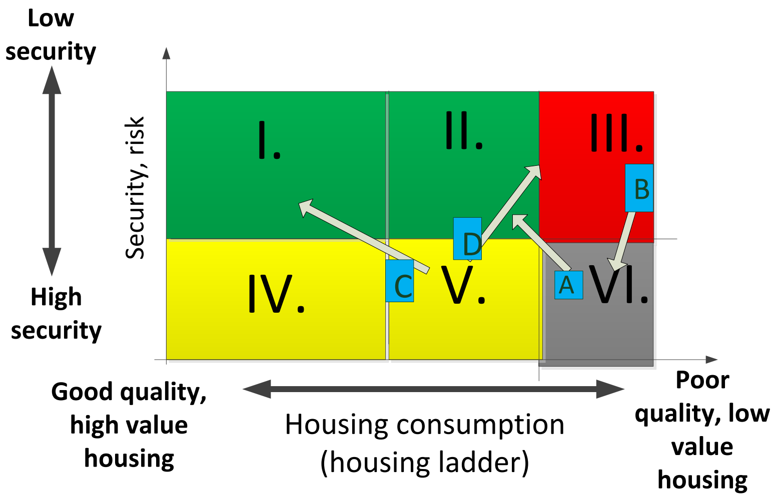
Some of the housing strategies of NMS households are presented on Figure 11:

Case A: a household could move from poor quality (substandard) housing to better quality housing with a lower level of tenure security, for instance by taking on a FX mortgage loan (on **Error! Reference source not found.**, this means moving from field VI to II).

Case B: a household could improve its situation by moving from poor quality housing with low tenure security (field III on **Error! Reference source not found.**) to a safer position, but still in substandard housing (fiel VI). A number or programs devised to move homeless persons to secure housing followed this logic: the program participants' income level could not be improved sufficiently to cover the costs of standard housing, but at least their housing position could be stabilized.

Case C: The middle class attitude towards improving housing position often meant moving from position V position to position I (again, often with the help of FX loans): they moved to larger and better quality housing, perhaps to a better location, but with this they also took on a serious risk element.

Case D: The 2007/2008 financial and housing market crisis was a huge external shock for NMS, and in some it was followed by a prolonged recession. A drop in employment and salaries meant the realization of the labor market risk for a huge number of NMS households, where one or more income earners lost their employment, or suffered a drop in wages. In this situation, households in a relatively good and not very risk position (V) could manage their situation by moving to higher risk, similar quality housing (e.g. private renting, indicating a move from V to II), and many even had to move to significantly lower quality housing with weak tenure security (moving V to III).



I. and **II.**: relatively good housing position with high risk (unstable income)
IV. and V.: good or relatively good housing position with low risk (stable high or middle income)
VI: substandard housing with low risk (low, but stable income)
III: substandard housing with low and unpredictable income

Figure 15. A dynamic look at housing affordability: the evolution of housing consumption and risk over time

4.3 Two types of housing poverty in NMS

The study concluded earlier that two social groups in NMS must be taken into consideration for affordable housing: people living in absolute poverty due to structural factors; and the members of the (lower) middle class, whose labor market and income position is uncertain, and could face slipping into absolute poverty in times of an economic downturn, due to the welfare states' limited ability to help stabilize their position.

For our task, the basic question is: how does the welfare regime modify the main demographic processes, and how does it affect the social/regional inequality produced by the economic structure (industrial relations), to which housing policies have to respond?

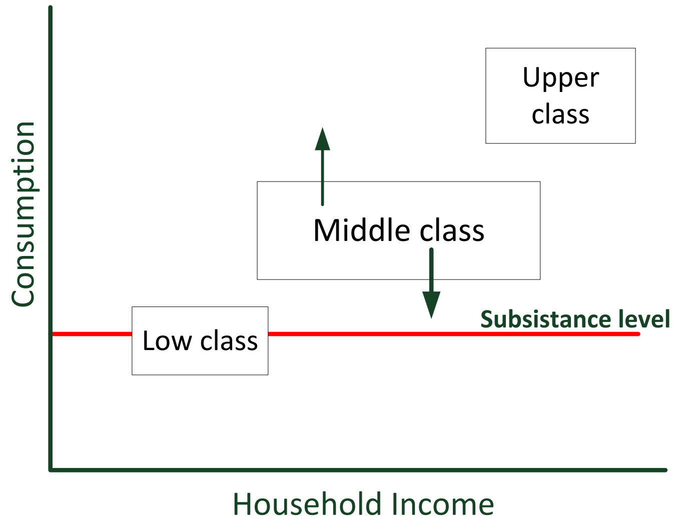


Figure 16. Basic social positions – as an "input" for housing regime analysis

First of all, from the point of view of housing regime analysis we can define three social positions: 1. the "poor"; 2. the "middle class", and 3. the "upper class"; and place them a coordinate system with the two dimensions "income" and "consumption". An upper class in a NMS means a relatively well-off social stratum with a stable financial and political position. The lower class ("poor") face a structural affordability problem, as their regular income with high probability does not cover the cost of the subsistence level, have a high risk of living in (severe) material deprivation, and face financial hardship on a regular basis. The middle class consist of households who might also face the risk of slipping into poverty, especially in periods of economic depression, or have the possibility move up, to a more stable middle class position.

While the growing costs of housing and housing related spending (e.g. household energy, commuting to work) is an overall European phenomenon, its causes and consequences are fundamentally different in the dynamically growing and the shrinking or stagnating regions. For households with a medium or lower-middle income level, the problem is triggered by the lack of appropriate adjustment mechanisms to rapidly alternating housing market cycles, to which they cannot adapt as swiftly; while the "traditional" poor suffer from policy makers' inability to manage these factors in the long run. Affordable and secure housing is consequently an important challenge for huge segments of CEE societies. The low average income levels and often the unpredictability of incomes due to informal work and weak job security also makes housing affordability unpredictable, even in the case of inexpensive and poor quality housing. Welfare state limitations mean that an unforeseen loss of family income cannot be effectively compensated by policy measures. Hence in our current approach we differentiate two basic types of housing poverty:

1. **Households in absolute poverty, facing severe material deprivation.** Households in this group may not even be part of the statistical "housing cost overburden" group – to the contrary, they can be characterized by a very low level of housing consumption. The poorest groups typically live in owner occupied (albeit very poor quality) housing, some of them in self-built detached houses or poorly renovated holiday cabins. Many very low income households live in inexpensive but remote areas, far away from public services (such as schools, shops, medical services) and labor markets; and their situation is further complicated by limited transport

options. For the most vulnerable populations, household energy may be very costly due to the poor quality and very low energy efficiency of their dwelling – or quite the opposite, it may be very low if they do not have access to some or most utilities (e.g. live in a remote, inexpensive area with no power grids or access to the sewage system; it is complicated to calculate exact heating costs for those who collect wood for heating, or heat by burning garbage due to wood collection restrictions).

2. **Households in relative housing poverty, or the "new housing poor".** A growing share of lower middle income households who do not suffer from severe material deprivation but still face housing cost overburden and increasingly limited housing options belong in this group. In dynamically developing urban regions even the (lower) middle classes could be priced out of convenient and easily accessible locations, and either face increasingly long commutes to work or school, or see their housing costs (condominium fees or rents) spiral out of control. The most developed urban hubs attract the most workforce, but their land market regulations do not necessarily permit the construction of affordable homes, e.g. prevent higher density home building near jobs. While the problem of housing market cycles is typically a supply side issue, land market, planning and capital market regulations together may prohibit a flexible market response that could alleviate this. Planning and land market regulations may be partially responsible for the surge of housing prices in economic centers which seems to make a growing number of young working households unable to afford a home. Mortgage lenders turned more prudent after the financial crisis, which is good news on the one hand, but on the other, stricter underwriting systems have also led to the lower creditworthiness of lower middle income persons.

4.4 Affordability issue in the NMS – statistical evidence

Affordable housing is one of the most widespread social aims of the housing policies and policy makers in Europe. Although researchers use several definitions of the term, for decision makers and advocacy groups it simply means that the ratio of the housing cost to the household income does not reach an arbitrary ceiling, most often 30 percent. This ratio is influenced by two main factors: (i) the local housing market (e.g. rent, interest rate of the mortgage, house price); and (ii) the local labor market (and the pension system), that is, income levels. This is why we face very different types of affordability problems in London or Copenhagen, where a young professional couple could easily pay 50 percent of their income for housing alone, while a deprived household in the economically depressed Northern Hungary or Eastern Slovakia would pay a similar or even lower share on their housing (this would, of course, mean very poor quality or downright substandard housing, often the only available option for low income people in economically depressed areas). In the first case it is the booming housing market which causes the affordability problem; in the second case the lack of opportunities for a stable income at a decent level. Our conclusion is that the nature of the affordability problem varies in different parts of Europe; and these two types of housing poverty also appears in within NMS: nominally middle class households may find maintaining good quality, well-located housing very challenging, while low income persons have a high chance of having to reside in substandard dwellings.

Thanks to Eurostat data, we have a quite good snapshot of the traditional affordability measures in EU member states (See Table 19); however, there are a number of concerns with both traditional affordability measures, as well as – in some cases – the reliability of the data. Quite importantly the oft-criticized and simplifying cost-to-income ratio expresses little about deeper social issues, risk of substandard housing, more complex factors closely related to housing (such as transport options and affordability); nor do they inform us about the probability of rapid changes in housing affordability in a volatile market environment.

Table 19. The share of housing costs in disposable household income (%) in CEE EU-member states

	2010	2011	2012	2013	2014	2015
European Union (EU28)	22.4	22.4	22	22.3	22.7	22.5
Bulgaria	18.2	20.8	24.7	24.5	23.6	25.0
Czech Republic	22.9	22.5	23.0	24.6	24.2	23.7
Croatia	25.3	18.2	18.5	19.8	20.0	19.2
Hungary	25.2	26.0	26.7	25.8	25.2	21.5
Poland	21.7	22.3	22.6	22.7	22.5	21.7
Romania	25.4	14.9	27.2	26.2	25.8	25.1
Slovenia	15.4	15.7	16.0	16.8	17.1	16.1
Slovakia	20.0	20.4	19.9	20.5	20.3	21.1

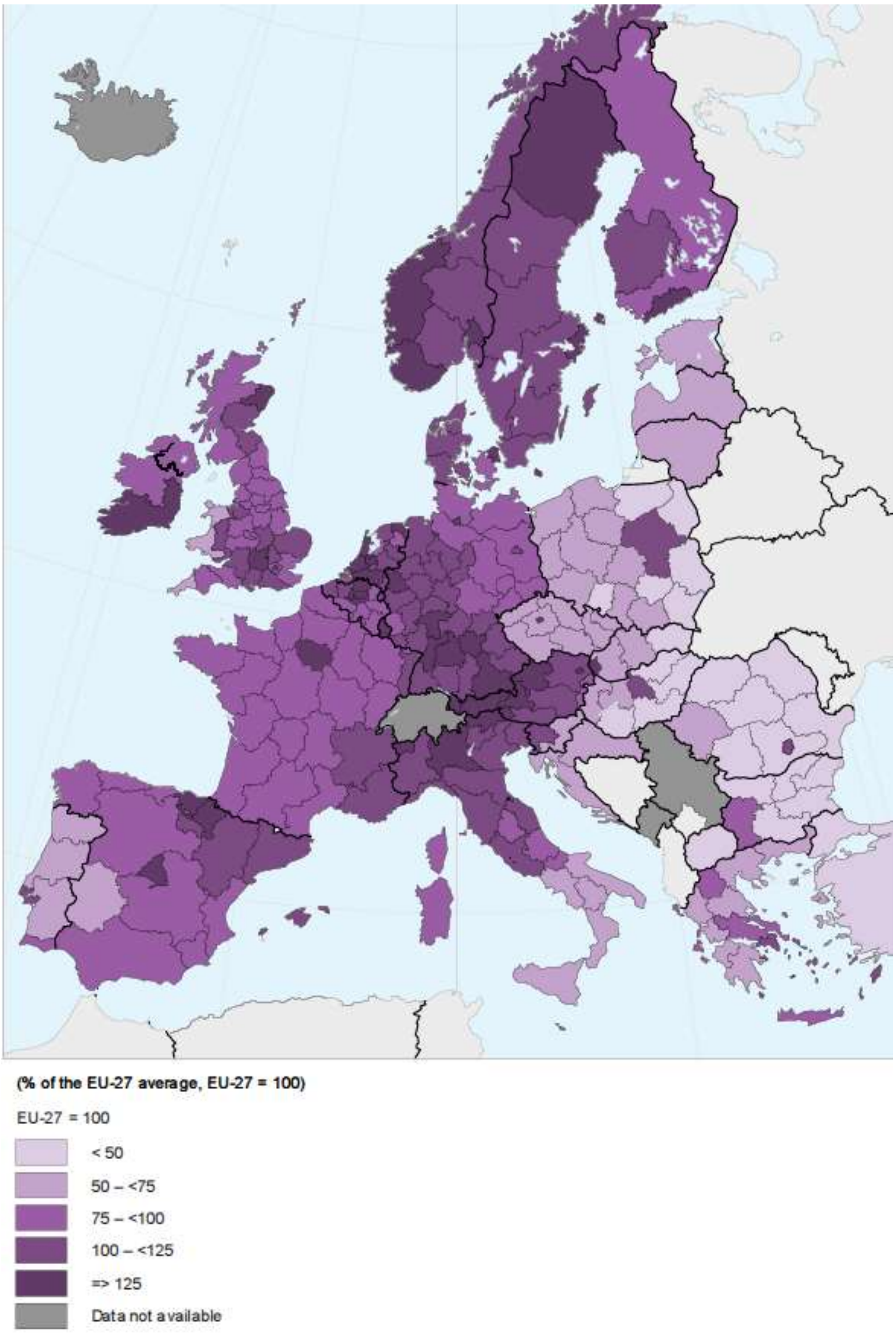
Source: Eurostat, http://ec.europa.eu/eurostat/en/web/products-datasets/-/ILC_MDED01

This is exemplified, for instance, by the similar level of housing cost overburden rate measured in some member states, Bulgaria (14.8%), Denmark (15.1%), Germany (15.6) and Romania (15.9%).[10] While in these countries households may well spend a similar share of their budgets of their incomes on housing, the same "socially acceptable" housing outcomes will be dramatically different. They also cover different housing types and inhabitants, and need different kinds of investment to maintain housing and keep it affordable, requiring different policy approaches. On the other hand, when a broader context (e.g. historic legacy) and a more comprehensive set of economic, social and housing indicators are also taken into account, a number of similarities arise between the more and the less economically developed areas; and to some extent the historical legacy of state socialism and the pre-1990 "East European Housing Model" also account for many important patterns.

Of course there are also huge differences within a single member state. For instance the poorer regions of Italy or France are comparable to some of the average or more developed parts of new member states (measured in Purchasing Power Standard); parts of the former East Germany evidently shows some similarities with some of the more developed Czech or Polish regions, and so forth. However, in an overview of member states, the divide is clear; and not only is housing policy a member state competency, opportunities for investing in housing also remain strongly influenced by the national level of economic development.

[10] Housing cost overburden rate by age group (code: tessi161), 2015

Figure 17. Per capita GDP in Purchasing Power Standard by NUTS 2 regions, 2010



Source: Eurostat – Gross domestic product (GDP) at current market prices by NUTS 2 regions [nama_10r_2gdp]

Between the lowest and highest income member states there is a two-time difference in GDP measured in Purchasing Power Parity (I1), although this is a measure based on averages: some items are most certainly more affordable in lower income Member States, others (like household energy or fuel) not necessarily so. There is a 3.5 time difference in average salary (I2); and in new CEE member states a massive share – 40 percent – of the population has trouble making ends meet. When the "core" Western and Northern European countries are considered one end of the spectrum and low income new Member States are the "periphery", Southern European countries can be considered in-between these extremes. Uneven economic development is also manifested in the asymmetric demographic processes in EU (Gerőházi et al. 2011) with growing population in the core and decreasing population in the periphery (I5-I7). The spatial divide in economic development has a consequence on housing market: in the more developed member states, house prices and rents both in absolute and relative terms (I10, I11) are higher than in countries in the peripheries, because of the higher pressure on the market. Their housing finance systems are also more developed, indicated by a significantly higher outstanding mortgage to GDP ratio (I12); and housing markets are more dynamic in terms of the number of transactions (I14) and residential mobility (I13).

Table 20. Likelihood of falling behind with rent or mortgage payments: EU comparison, 2010

	No risk at all	Low risk	Moderate risk	High risk
Romania	21	21	27	26
Slovenia	53	16	19	9
Hungary	38	29	22	8
Latvia	27	20	30	20
Bulgaria	26	18	22	17
Lithuania	26	21	30	16
Poland	36	25	22	14
Slovakia	32	39	17	11
Czech Republic	28	30	28	9
EU–27 average	**55**	**20**	**15**	**8**

Source: EU Statistics

The social consequence of the affordability problem is that households either have to restructure their household budget (which may result in an unacceptably low consumption of items other than housing, such as education, culture, recreation etc.), or are forced to change their housing situation and move to a lower position on the housing ladder (to an overcrowded, substandard unit, or one located far from the labor market and services). Both local labor markets and the housing markets have become volatile in NMS, which means that households could see their housing affordability rate change dramatically over a short period.

4.5 Housing affordability in a dynamic approach

Comparative housing research aims at defining types and models, and pays less attention to processes. In our approach the dynamics represented in the matrix (both in and among the cells) are important. As already discussed, one of the major change in the NMS housing system was the sharp reduction of the state integrated public rental sector. There are several theories for explaining privatization, but most of the authors agreed that both the landlords and the tenants were interested in the process, which enjoyed the support of the national politics, although not always necessarily in the form of a discount right-to-buy scheme. But the way the remaining small public sector functions depends on the post-transition regulatory and subsidy environment.

After considering the static measures of housing affordability (presented earlier), we must also analyze the issue from a dynamic viewpoint, which takes into account the likelihood of affordability changing over time, and also helps understand the underlying causal relations. The dynamic process of changes in affordability is illustrated on the next Figure.

The starting point of the analysis is the macroeconomic and institutional conditions. Income distribution among households, and therefore the likelihood of a gap opening between housing costs and a household’s disposable income, is fundamentally influenced by macro level factors: the macroeconomic environment (the conditions and possibilities of the job market and the housing market in particular); and the welfare regime (state programs, and family networks' maneuvering room).

i. The first macro level factor to be considered is the labor market, in terms of access to jobs (including adequate transport options), stability of employment, and also stability of incomes.
ii. Welfare regimes compensate income discrepancies, the extent of which depends on government commitment to social solidarity. Whether the welfare state provides sufficient unemployment coverage for workers to weather unemployment spells, or adequate social and/or housing assistance for temporary hardship, is a key question for sustainable housing affordability.
iii. Where welfare interventions fail to provide adequate support to large segments of the society, social solidarity often surfaces in intra-family support networks. However, their effectiveness strongly depends on the socio-economic position of households. Although intra-family support often entails in kind forms (such as giving information or providing accommodation to a family member), welfare provision is still necessary for persons who cannot rely on family help.
iv. We must also consider the way the housing market's influence on the relationship between incomes and housing costs. We do not only assess the housing regime's ability to balance income levels and housing costs, but also the overall volatility of the housing market: are regulations and housing policy measures able to offset economic shocks affecting the market, to provide households time and space to adapt to housing market changes; or do they allow drastic market changes to directly affect households, leaving the housing market more volatile?

In a given time period these macro level mechanisms and structural factors define the group of households which face a temporary or systematic gap between disposable income and housing costs. In this case, a household is likely to enter one or more of the following three situations:

A) Household members have to reduce their non-housing expenditure, to cover housing and utility costs. This could range from a reasonable, but still acceptable restructuring of the household budget, e.g. less spending on leisure activities or other non-vital consumption items, to difficulties in affording basic consumption goods, such as food or basic hygiene products.
B) A household may have to reduce their housing consumption. This, too, has a wide range, from trying to reduce utility use, to moving to less costly housing. Either of their options may be problematic if they interfere with healthy and socially acceptable living standards, like not being able to adequately heat the home, moving to substandard housing, or moving to a remote area which then requires extensive (and possibly costly) commuting to work.
C) If a household in serious financial hardship continues to maintain their standard housing consumption (for instance because their housing consumption level is already modest, and moving lower on the "housing ladder" would require substandard living conditions), but cannot find a way to cover for its cost, it will begin to accumulate arrears in housing and utility costs.

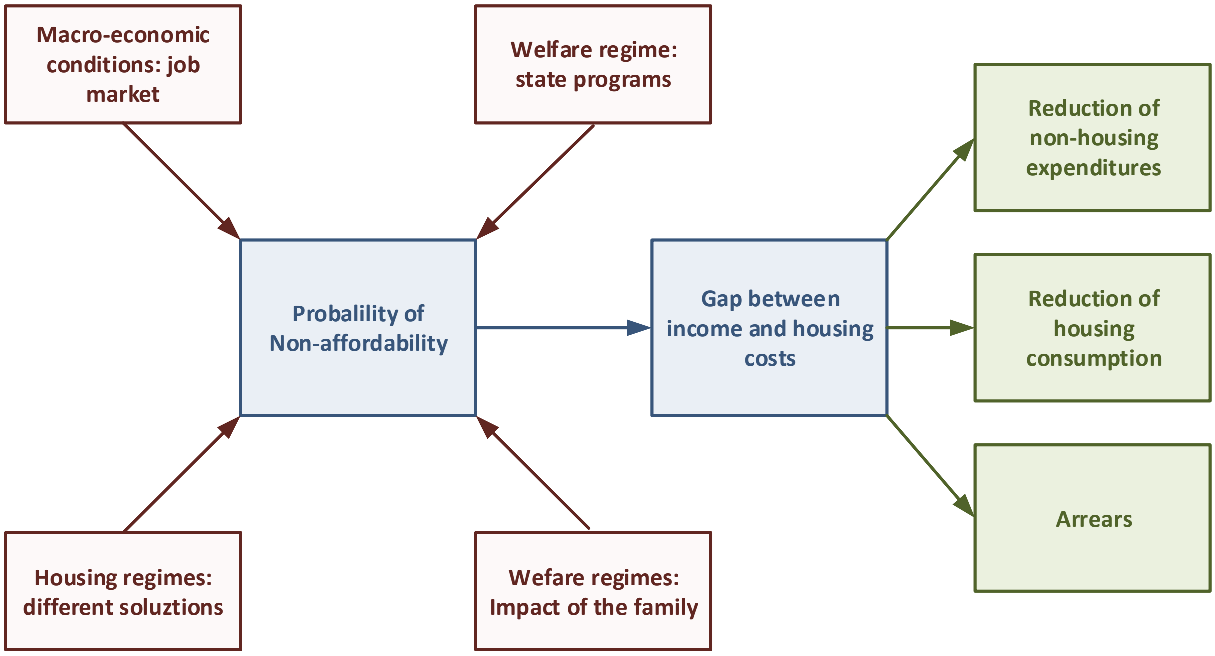


Figure 18. ***Schematic model of dynamic approach of affordability***

It is important to realize that a household facing a serious challenge in housing affordability may find itself in either of these situations, or a combination of them (and two, or all three). All three, in varying combinations, are a daily reality for the housing poor of Europe, although with different emphases among, and within, countries. In a generally high income economy, the relative poor may be able to reduce their housing consumption without having to move into substandard housing, and face the associated risks for their health. Nonetheless, this may limit their social integration opportunities (like having to spend more time commuting to work). If moving to lower cost housing becomes problematic, for instance because the market becomes rigid, even this relatively low income household might face situations A or C. In lower income countries, on the other hand, substandard housing – and very little chance to move from extremely poor quality to standard housing – is a significant social issue. Nonetheless, the challenge of substandard housing coupled with deep poverty is present in the most developed European countries as well; and housing affordability challenges that do not result in such extreme situations, but strongly limit household opportunities, are present in the lower income EU member states, often in their most developed urban hubs, which also offer the best employment opportunities to workers.

Apart from these structural factors, the circumstances and characteristics of individuals, households, and family networks also play a role in outcomes. In a program aiming at alleviating households' financial and housing cost hardships, these characteristics may be very influential (e.g. the saving and budgeting attitude of households, cultural or religious background, health, age, educational attainment, and so forth).

Based on the model presented in Figure 18, housing policy and social policy interventions can also be analyzed. First, the alternatives to families facing financial constraints provided by the housing regime must be considered. Can the housing policy environment ensure some level of stability to moderate income families (for instance, households in the lower 60 percent of society), which can fulfill the role of preventive measures? Then, with regards to families facing temporary hardship due to a gap opening between income and housing costs, social policy programs (linked to housing aspects) must be launched. There are several potential solutions, which will be addressed later in the text. (Effective programs can also be initiated through labor policies and welfare measures, although these are not in the focus of the current study.) Evaluation of the housing policy programs in NMS

The main focus of the current study is to identify the constraints of maintaining and expanding the affordable housing stock in new EU member states in the CEE region: bottlenecks to attracting public and private investment into creating and operating affordable housing in a manner that is economically viable, while maintaining its social goal of responding to social inequalities and addressing the shortcomings of the welfare system.

On the EU level, there are numerous challenges, but also several good practices, some even on a relatively large scale. While commendable efforts have been made in new member states as well, the existing or concluded affordable housing programs have typically been small-scale and modest scope; and very few were up-scaled to a wider – regional or national – level. Our goal here is to assess these programs, and identify the reasons why such a breakthrough failed to materialize. In cooperation with some outstanding in-country experts from the CEE region, we selected the most noteworthy programs from recent years, and based on this collection of cases we attempt to identify the factors which hinder the development and up-scaling of such initiatives.

4.6 Criteria to evaluate the social and affordable housing programs

In the following section, we briefly elaborate the evaluation criteria for checking the viability, financial sustainability, and social adequacy of affordable housing programs in the CEE context. These aspects also help the reader understand the limiting factors and constraints of launching programs and projects for affordable housing. Rather than existing program evaluation criteria, the assessment points listed below were developed on the basis of practical experience: despite their merits, most attempts to alleviate housing market pressures and provide safe and adequate affordable housing have failed in the CEE region; and the evaluation criteria were developed to help policy makers avoid the traps and bottlenecks these projects had to face systematically.

The following section identifies the most relevant criteria for evaluating social and affordable housing programs in the CEE context. The criteria are based on key conclusions of the international literature (Buckley and Mayo,1989; Conway et al. 1996; Gilbert, 2004; Mayo and Gross, 1987; Merrill et al. 1999, Scanlon & Whitehead, 2004; Hoek-Smit and Diamond, 2003) as well as the experience of existing programs which attempted to expand the affordable housing stock in the Central and eastern European countries (see Appendix for the description of some notable programmes), and had therefore to address the specific challenges which characterize this region.

We summarized under the following five headings the criteria that we believe crucial based on our analysis.

4.6.1 Targeting and the subsidy level in context of the affordability

Targeting is a crucial element of affordable and social housing programs. The mainstream method of selecting beneficiaries into affordable housing projects has been means testing (along special vulnerable groups, such as disabled persons). Nonetheless, means testing may be problematic in situations where the applicant’s income is difficult to measure, in which case indirect indicators may also be used.

There is a trade-off between the amount of subsidy, and the number of low income households who may be involved; and this have often incentivized providers to set the income ceiling so low that it excludes many of the very needy families for financial rationality. At the same time, social mix may also be an important goal; on the one hand, it may also justify a wider target group, but on the other, it must not steer support from the poorest towards the less needy. There are, however, some key issues which must be taken into account. First, informal income may be very difficult to tackle in means-tested allocation. In some cases, means testing is not necessary, as those who can afford higher quality market dwellings will not attempt to enter public housing (e.g. the self-selection mechanism at play in Swedish public housing); but the case may be very different in CEE countries. Means testing may therefore remain necessary; which also implies a higher level of administrative costs that need to be balanced in comparison to potential social costs.

Moreover, selecting the target group is a complex issue. Providing support to the lowest income and most vulnerable social groups is indispensable, and omitting this leads to grave social costs. At the same time, there are considerable arguments for not exclusively targeting supported housing programs at the lowest income social strata. First, doing so may prompt decision makers to locate affordable housing in a remote are, and lead to segregation. Second, it often leads to stigmatization of the beneficiaries. Third, providing parallel support to the risky lower middle class also improves the social acceptance of such programs, as well as the political will behind them. Also related to political will and public acceptance, in times of slow economic growth or a downturn, programs aimed exclusively at the poorest are often the first to be discontinued.

In turn, if a programmer targets lower middle class households as well, the balance of the distinct target groups must be preserved rigorously. Experience of supported housing programs in CEE countries suggests that underfunded public bodies will reduce their support to the structurally poor if possible, and assisted housing programs run a risk of becoming neutral and even regressive through becoming pro-middle class – that is, support to the most needy is cut off, while the program benefits the relatively stable (lower) middle class.

Finally, in some cases self-selection mechanisms may also be relevant. In relatively high income countries, the stable middle class is unlikely to enter public housing, as its members can simply afford a more attractive market based solution. In CEE countries, on the other hand, sometimes even members of the higher income decile have good reasons to try to enter relatively good quality public housing. Nonetheless, certain subsidy forms (like energy efficient refurbishment subsidies for persons living in system built housing blocks) are unlikely to be regressive, as the highest income groups typically do not live in such housing (although is does not accommodate the poorest either; members of the CEE’s lower middle class are the likely residents).

It is important to see clearly the connection between the level of subsidization and affordability of the supported housing scheme for different target groups. While a lower middle class public renter may be able to pay a cost recovery level rent, this may still be unaffordable for the lowest income groups. Subsidization must be set at a level which ensures that supported housing is affordable for those most in need; otherwise the program may become ineffective or even regressive.

An issue intertwined with targeting and social mix is the option of setting graded subsidy levels to different social groups, with providing higher subsidization to the “systemic” poor, households which are highly unlikely to improve their situation in the long run. Here, too, the question of means-testing is crucial, not only when entering an affordable housing scheme, but also intermittently, in order to reduce subsidy over time for households which only need temporary help, while keeping up assistance for those permanently in need.

4.6.2 Quality standards and location of the affordable housing programs

Quality standards are often lacking or very relaxed in CEE public housing, and efforts to keep very low quality public housing affordable also keeps the neediest households in very poor quality dwellings, which may harm their health and social integration. Moreover, when it comes to support for low income owner-occupiers, subsidizing the cost of their sub-standard dwelling rather than helping them to adequate affordable housing only perpetuates their marginalized situation. In both cases, not taking into consideration the location and transport options (costs) may also hurt their chances to integrate into the labor market. But, given the quality, location, and rigidity of housing in CEE, setting a realistic but fair minimum standard may imply finding a very fine line.

It is important that minimum quality standards are set – and met – in affordable housing and housing subsidy programs, to make sure that the subsidy does not contribute to keeping substandard housing on the market, or does not incentivize poor households to move into substandard housing. For instance, providing private rental allowance, which then recipients can only use to upkeep barely habitable dwellings due to systemic discrimination on the market, would lead to the proliferation of substandard dwellings on the private rental market (as will be shown later in the case of the Czech Republic's rental subsidy scheme).

On the flip side, secure housing with very simple conditions may be affordable and still represent an improvement in living standards to some vulnerable groups, e.g. persons with very low or no income, and at risk of becoming homeless. Schemes involving social dwellings with very modest quality standards may be justified in certain cases, especially where higher quality housing in a financially viable scheme would be unaffordable for certain target groups, even if the proposed dwelling is otherwise significantly more affordable than market housing.

In many cases, location is not taken into serious consideration when setting up subsidized housing programs. This may lead to new social housing construction or housing subsidy provision in remote locations, far from the more active and absorbent labor markets; beneficiaries therefore risk ending up in someplace affordable but with no opportunity for labor market integration and securing a stable income. The public sector's intention to lower costs through purchasing or constructing subsidized housing in affordable locations is understandable from the point of view of financial sustainability of such programs; however, when this attempt leads to accommodating people in peripheral or segregated areas is highly questionable in terms of the long term social and labor market integration of the beneficiaries.

4.6.3 Financial sustainability and control over the "'leakage" of the public resource

Very limited public funding for affordable housing solutions is an obvious risk, especially in the lower income CEE countries given their more limited welfare regimes. On the other hand, the financial sustainability of the programs may also be endangered by various unintended mechanism. Ideally, public spending invested into affordable housing should benefit the quality and long term operation of the affordable stock. This could, however, be jeopardized by leakage or actors (management companies or beneficiaries) capitalizing on the subsidy. On the other hand, long term sustainability can be buttressed by mechanisms such as financial and social mix (combining public and private investment; involving both modest income and low income beneficiaries etc.) and risk sharing mechanisms.

Due to the socio-economic factors detailed in the first chapter of this study, public actors in CEE countries can rarely implement large (or even medium) scale projects without channeling private financing into affordable housing construction efforts. At the same time, a move away from direct public financing towards mixed public-private mechanisms has also been characteristic of Western European housing programs as well, e.g. based on tax credit models or real estate investment trusts. Moreover, the decentralized public bodies most often responsible for affordable housing provision rarely have sufficient funding in CEE countries, even when they are committed to improving access to adequate and affordable housing to their citizens in need – measures based on income redistribution, such as funding affordable housing from a public budget, are simply not feasible on the local (municipal, even regional) level.

There are, however, a number of possibilities to involved mixed financing. In the CEE context, schemes that are able to attract private financing and a variety of subsidies into expanding the affordable housing stock are much more likely to reach target output – or at least come reasonable close to it (e.g. through PPPs, mixing central state and international donor funding etc.). Here, a crucial challenge is to guard the social mission of the investment and operation, while also making the arrangement attractive for private investors. The mixed financing improve the chances for sustainable programs.

4.6.4 Control over the "'leakage" of the public resource

While financial mix (especially the inclusion the private sector) may improve the sustainability, they also imply that private actors will be involved in much of affordable housing development. It is an illusion that they can be attracted without being offered a certain level of profit (although some limited examples, such as social bonds, do exist in relatively higher income countries). In this case, it is important that none of the actors should enter a position using a market failure or normal market control mechanisms that part of the invested capital (subsidization) is diverted into its private gains. At the same time, a program must ensure that this profit remains at a reasonable level. For instance, schemes must be developed in a prudent manner which does not permit market actors to artificially raise prices in response; or involved financing institutions (like banks) do not apply unjustified administrative costs on the distribution of subsidized funding products.

The key question of the efficiency of a housing subsidy program is to limit the possibility for the beneficiaries to capitalize the subsidy. The rationale for such a limitation is that – assuming that the beneficiaries are selected based on financial need – the situation (income status, opportunities) of the beneficiaries may change over time. A distinction in the two main target groups to be addressed in affordable housing programs has to be emphasized here. One target group was identified as structurally low income, consisting of persons who are very low income, and highly unlikely to significantly improve their financial situation in the long run through better labor market integration (e.g. the low income elderly, or persons with serious physical or mental illness). However, members of a risky lower middle class, who face temporary hardship – for instance due to rapid rise in rents or mortgage instalments, illness, loss of employment etc. – may also need affordable housing solution. This latter target group may also see their situation stabilize while they have secure accommodation in supported housing.

However, under certain conditions, a ‘soft’ capitalization of the received subsidy may be acceptable: in such an arrangement, the capital gains stemming from the subsidized dwelling would be shared between the beneficiary and the funding body (state or other public body). Another justification for the partial or shared capitalization of gains could be cases when the subsidy compensates for certain risks, e.g. when a family with two or more children decides to move to a remote location for improved work and education opportunities.

4.6.5 Housing provision with a capacity given the beneficiaries to adapt financial hardship

Given the evolution of the housing market in the past decades, we can conclude that property prices, mortgage lending, and rent levels have become volatile. While the Global Financial Crisis briefly pointed to the possibility of more prudently regulated market, a few years after the recovery this hope seems unfulfilled. Labor markets, on the other hand, have been becoming increasingly more flexible, which makes them more efficient and productive on the one hand, but also makes the situation of wage earner households less secure. With both housing markets (costs) and employment incomes becoming less predictable, it is important that affordable housing solutions reduce the volatility of private markets and the associated risks of households in times of rapid changes, and provides households sufficient time to adapt to changes.

A rarely examined element of subsidized housing schemes is their ability to provide leeway to low income and vulnerable households to adapt to radical changes in their circumstances. For instance, a job loss, a serious illness, or simply a steep change in housing market conditions may destabilize a typical ‘risky middle class’ household. Such a person or family may be able to recover from its situation in a relatively short timeframe, possibly 6 to 12 months, but this also depends on welfare provisions in a given country. If substantial social support, like unemployment benefit, is only available for a very short period, a family in sudden financial hardship may not be able to regain its footing, especially in the overall lower income and modest welfare CEE context. In such cases, if the household has access to a secure and low cost housing for the hardship period, this may compensate for the deficiencies of the welfare regime.

4.7 Critical overview of the programs

In NMS, after the recovery from the transitional economic crises in the beginning of the 2000, housing policy again become in the forefront of the public policy. Many countries (frequently with the technical help from Donor Agencies) work out optimistic housing policy documents which pledged to the new approach to housing with special emphases of the social programs (examples include Slovakia in 1999; Hungary in 2000; Romania in 2000; or Lithuania in 2003). However, in practice most of the programs remain on paper. The political reality of resource allocation of the public resources weakened the social aspect of the housing programs, which is explained by economic and political factors. As a consequence of the GFC the social aspects of the housing programs weakened more.

The case study of Czech government attempt to introduce a progressive housing law (See Appendix) illustrates the complicated policy decision making mechanism, and the strength of the unpredictable budget consequences related to social programs which were not supported by influential institutional interest. The unpredictability of homeownership programs was not a constraint, when the state resource allocation was supported by the industrial and financial lobbies. The detailed political economy analysis of the housing sector is beyond the task of this study, but looking for the solutions this factor cannot be neglected.

Important fact is that the NMS without exception made efforts to modernize the housing policy and introduce affordable the programs, but, till now, the majority of the programs remained small scale, not targeted to the most vulnerable groups, several times the invested subsidies “leakage” from the housing sector, or produced housing with lower quality than expected or in location, which had limited contribution to the solution of the housing need a modern economy. We will follow a critical approach, focusing the institutional, financial and technical constrains which limited the progressive initiatives developed on NMS to scale up. The analyses will show, on the other hand, that some countries had made progress with programs, especially in the area of the energy efficient rehabilitation of the multi-unit housing stock, introducing safety net schemes for the households in financial trouble, or the development affordable mortgage products, etc. We will give overview on four types of the programs: social rental sector initiative, using private renter sector for social purpose, affordable home ownership programs and programs for technical and energy efficient renovation of the housing stock.

4.7.1 Social rental programs

In order to expand the affordable and social housing provision the mainstream approach was implemented through local governments: e.g. Slovakia, the Czech Republic, Romania and Hungary and partly Estonia, chose this solution. However these programs remained small scale and basically could not change the dramatic decrease of the social housing stock in CEE countries deriving from the mass privatization (and in some countries restitution) of the municipal housing stock. The programs produced only few thousand or ten-thousand units which amounted only to 1-2 percent - or even less - of the total housing stock.

Lack of municipal interest to maintain and increase social housing stock

A main reason for the overall drastic decrease of social housing stock and the underuse of the new schemes has been the lack of political interest on the part of municipalities to maintain and expand the sector deriving from a complex set of different factors. From the beginning of the transition a fundamental theory has been in CEE countries that the desirable and natural form of housing people is homeownership and public policies should support households to acquire their own housing. Furthermore, the maintenance and expansion of social housing stock is municipal responsibility placing substantial long-term financial burden on local authorities. Municipalities predominantly bear the costs of housing the poor and low income families not only because they have to partly finance the new developments but also because the central welfare systems are weak in these countries which means that the difference between the rent that is affordable to social tenants and the costs of maintaining the sector has to be covered by the municipalities. Additionally, housing the most vulnerable groups tends to generate local social tensions which municipalities are reluctant to manage as they fear that acting for the sake of the poor and vulnerable would harm their political support among the rest of the society. Such conflicts result in a NIMBY kind of attitude on part of municipalities generating a strong interest to crowd out the poor from their settlement especially when poverty is coupled with ethnicity problems.

The majority of the new social housing schemes used matching financial structure, where the central government subsidized municipal construction contributing to part of the investment costs and in return imposed conditions to local governments with regard to rent setting, allocation and construction costs. Including private resources were of exemption: the Polish TBS program included the financial contribution of future tenants, while a Tallinn social housing program used a PPP scheme which proved to be an exceptionally expensive program for the municipality.

New schemes are not sustainable on the long run

A general experience has been that the new social housing schemes launched mostly at the beginning of the new millennium were of short term. The programs were initiated by the central governments who realized that low income and poor households faced with serious barriers to enter to the housing market (both owner-occupied and private rental housing). Nevertheless, despite central governments developed new housing strategies in some countries these remained purely conceptual, while other countries actually launched the programs but terminated it after a few years. Even the largest scale programs were the first to eliminate in the time of crisis. In the framework of the Polish TBS program 80,000 units was built but the program was abolished in 2010 after the GFC. The only exception is the Slovakian social housing program which is still going on producing 40,000 units (2 percent of the total housing stock).

Consequently not only on the municipal side but also on central government level the lack of political interest seems to be a major problem in terms of expanding social housing stock.

Programs without real social effects

The small-scale and short-term programs could not influence the chance of the poor and low-income groups to get access to affordable and adequate housing. However there is a more general reason behind this than the badly designed programs, and the political counter-interest of municipalities and central states. In CEE countries the housing affordability problems concern a wide group of the society as 40-60 percent of households face difficulties to enter to the housing market. Narrowly targeted social housing programs would leave out middle income groups who also have affordability problems both in the owner occupied and in the private rental sector and largely exposed to the volatility of the housing prices, interest rates and rents. Therefore the neediest and less needy groups are often competing for scarce public support resources. A clear indication that decision makers have realized this problem is that the target group of social housing including the new stock has been widened to include low income groups as well.

Countries with relatively larger scale programs especially had allowed for a wider target group in their new social housing schemes which meant that the schemes basically targeted the low middle class people with regular but moderate income typically prioritizing public sector workers (or so called key workers), young families etc. However in several cases the centrally imposed criteria of the programs meant that the neediest social groups (explicitly or implicitly) could not have access to the new sector.

The Slovak social housing program with normal standard is a good example for such wider target group. The eligibility criteria of households to have access to the new stock is set by the central government in terms of households income; the household per capita income cannot be higher than three times of subsistence minimum (in the case of special types of households – e.g. disabled people – the limit is 3.5 times). This means that practically 60-70% of all households are entitled. The rent is set as maximum 5% (the average is around 3%, €2.8) of the acquisition cost but has to cover the payment of the subsidized loan and the maintenance costs. Such conditions mean that the scheme can be conceived as affordable rental rather than strictly social rental (Hojsík, 2013)

In case of the Polish TBS the program explicitly targets those who have moderate but stable income and not the neediest ones. The entering criteria includes that 30 percent of the investment costs has to be provided by the future tenants, which obviously excludes those groups who do not have any savings. The concept behind the TBS was to provide exit opportunity from the old, dilapidated stock for those municipal tenants who have higher income but still not sufficient to enter to open market, which enables municipalities to allocate the vacated stock to the lowest income group.

The rent levels have to be based on a cost-recovery principle in most of the programs, although the central criteria do not include a minimum household income requirement. This mean that to include lower income households municipalities should provide demand side rent subsidy to the needy tenants. However municipalities while trying to keep rent levels on a lower level they typically do not provide rent allowances to households, and central housing allowance schemes if exist at all do not effectively contribute to the housing costs. Therefore municipalities often impose minimum income criteria as an entering condition to the new stock in order to ensure that tenants are able to pay the needed rents.

To ensure affordability only in Romania it is legally regulated that households cannot spend more than 10 percent of their income, the difference between the rent and tenants' actual payment has to be covered by the municipalities. However it is not stipulated that on what degree the neediest groups should have access to the sector thus it may shift the allocation toward the somewhat higher income groups (lower middle class).

Quality and location of the new stock

Despite the newly constructed stock had to be in line with the legally stipulated general housing construction standards, quality problems often emerged as construction prices were maximized in several programs negatively affecting the actual quality of the new units.

Location related conditions were hardly imposed in programs supported by the central governments. Although generally there is lack of information of the exact spatial distribution of the programs, two location-related problems emerged in several cases. One is that cities with prospering economy and vivid real estate market were less interested to construct social housing. This was the case in Slovakia where cities with good labor market including the largest cities Bratislava and Kosice hardly participated in the program, and thus more than the half of the new social housing units were constructed in villages and small towns. The main reason for low interest on the side of large urban hubs has been the the scarcity of municipal land, which even if exists is used to other purposes in order to generate income for municipalities.

The other problem is that municipalities tend to build social housing in low-income, more deprived neighborhoods. This practice increases the risk of spatial segregation making less sustainable the new developments which again may cause less political interest in expanding the stock. This was the case in Tallinn social housing programs where the central government programs did not allow for dispersed programs and thus social housing was built in blocks and in deprived areas concentrating social problems spatially.

Strong privatization drive

An important question was whether the new units were eligible for privatization as it practically means the possibility of capitalization of subsidy by the beneficiaries. An overall experience has been that the political pressure was strong on municipalities to privatize the stock. The Romanian regulation allowed privatization which resulted in that substantial part of the 27,000 new units was privatized. Another striking example of capitalization of subsidies is the Czech municipal public rental housing program before 2003. The program allowed the formation of housing cooperatives through which the co-op flats practically were privatized. The majority of the newly developed stock, amounting around to 70,000 units, was transformed into cooperatives, thus was pulled out from public rental stock. (Lux, 2013) In Tallinn, Estonia, the public housing program permitted tenants whose previous dwellings had been restituted to former owners to buy their home after five years (Kährik et al, 2003).

The Polish TBS sector was not allowed for privatization so far, but its future is quite uncertain as there is a strong political pressure on the side of the tenants to buy their dwelling. The only positive example is the Slovak regulation which clearly stipulates that the newly constructed stock cannot be sold for 20 years and has to be used as social housing.

Lack of efficient institutional form of management

The sustainability of the social housing stock is significantly affected by the inefficient management structure. Municipal housing in most places is managed by municipal companies or institutions. However such institutional arrangements have the risk that the management can be directly distorted by political interests, which often come before social and operational efficiency issues seriously harming the transparency of the sector.

There were some attempts to take out public housing management from direct municipal operation by allowing the establishment of local/regional housing funds, nonprofit housing companies. However most of the initiatives failed basically because the sector financially not sustainable as rent are low, the share of tenants with arrears are high and rent allowance schemes with the exemption of Czech Republic are non-existent.

4.7.2 Private rental sector programs

The private rental sector started to gain importance after 1990 in CEE countries; however, several problems substantially hindered the growth of the sector. Recently the private rental sector accounts for 2-8 percent of the total stock in the region, with the exception of the Czech Republic, where it amounts to cca 11 percent.

Due to relatively loose regulation, little policy attention to the field, and the very low level (or complete lack) of subsidies to private landlords or tenants, private renting also holds high risks to households in CEE countries. Restitution in the 1990s could have been a solid starting point for a private rental stock in some CEE countries, but this development only really materialized in the Czech Republic. A long standing and challenging social tension between the restituted owners and their sitting tenants – often enjoying prolonged protection in their dwellings – was, and still remains, a more likely outcome in many transition countries. Private renting did, of course, appear in every CEE country, as the public task rental sector is simply too small to accommodate all households who cannot afford or do not want to obtain homeownership. The private rental sector in CEE is primarily based on leasing dwellings which became vacant due to demographic developments, although a slowly growing number of "accidental landlords" does in fact purchase and lease a second – or even third, etc. – apartment for investment purposes. Real estate is generally seen in CEE countries as a reliable form of investment, a sort of buffer for the potential deterioration of financial investment opportunities. However landlords also face substantial risks because of the insufficient regulation of the sector. At the same time, private renting is a usual housing solution for mobile low income households, which is typically characterized by relatively high costs – especially for the financial possibilities of poor workers and job seekers – and low housing quality.

The private rental sector in NMS operates largely in the grey economy, which means that many landlords, mostly private individuals (the so called “accidental landlords”) do not pay tax after their rental income, and often do not allow their tenants register their address. Therefore the real share of the private rental sector may exceed the official data in many places.

The private rental sector is loosely regulated compared to the public rental sector. The length of the leases, the conditions of contract termination and the frequency and degree of rent increases are typically not sufficiently stipulated by the relevant laws. Such loose legal condition increase private rental tenants’ uncertainty, making the sector more risky especially for low income households. Loose regulation also has a negative effect on landlords’ side as makes the recovery of their investment uncertain through the difficult legal enforcement in case of rent (or utility costs) arrears or damage to the dwelling. Tenant-landlord relations and disputes are poorly regulated in most new member states. If one party breaches contract, enforcing it through litigation is so expensive and time-consuming that few even bother; and although alternative dispute resolution for tenancies does exist in some NMS, its influence is very limited.

However, in the restituted rental sector tenants enjoyed a stronger protection for a long time as rent increase and termination of contract were differently regulated. In some countries, for example in the Czech Republic the a gradual liberalization of rents in the restituted sector already was implemented, while in other countries it is still a source of tension between landlords and tenants. In countries where restitution happened on a larger scale, the above presented social housing programs also aimed to provide alternative housing for tenants living in restituted rentals.

Beside the general lack of insufficient regulation of the private rental sector another main problem is directly related to affordability. The typical tenants in the private rental sector are households that cannot enter homeownership, or those who are in a transitory life situation (e.g. young people, divorce people etc.).

Housing allowance programs and their implications for the private rental sector

Although in several countries the existing housing allowance schemes can be used to decrease the rent burden of lower income households in the private rental sector as well, only in few countries does it mean a substantial relief to households in terms of affordability. The amount of housing allowance usually small, which practically does not have any effect on the market: low income household cannot have better access to more adequate housing because of receiving housing allowance.

Housing allowance programs in the region were a form of income support for paying housing costs, rather than demand-side housing subsidies. The allowance programs were aimed primarily at helping to pay the utility costs (energy, water and sewage, etc.) of low-income households. They aimed to correct the social effects of the price liberalization for housing related expenditures (an element of the market creation strategy). Consequently, the housing allowance programs in the region did not assist in providing access to housing (Hegedüs-Teller, 2005).

Nevertheless during the 2000s several changes were implemented in the housing allowance programs, resulting in substantial differences. Basically there are two countries where the housing allowance scheme is of high significance and has actual effects on the housing market. These two countries are the Czech Republic and Poland.

Compared to other NMS, there is a fairly generous housing allowance system in the Czech Republic. The average amount of the housing allowance has been around 58 Euro monthly since 2012. Households are eligible if they have a registered address in the rented dwelling, 30 percent of their monthly income (or 35 percent in Prague) is insufficient to cover housing costs, and at the same time the household's income is lower than the relevant prescriptive level set by law. It provides help to the 5 percent of the households (220,000 households in 2014), and even helps to find reasonable rental dwelling both in the private and municipal sector. Additionally to the housing allowance the so called "housing supplement" can be also provided to the lowest income households in material need (without income and employment), if after paying the housing costs, their remaining income is insufficient to cover basic subsistence; 74,000 households received such allowance in 2014 (Hurrle 2017). Both tenants and owners are eligible for the housing allowance scheme. This provides an opportunity to support low income households to find housing in the private rental sector. However the most vulnerable/marginalised groups (e.g. Roma, homeless, etc.) suffer from discrimination, not only in the private but also in the municipal rental sector. To cope with the problem of discrimination a pilot project was implemented in which the state provided Guarantee Fund for landlords in case they rented out their dwellings to vulnerable people. Although there is a plan to establish a permanent guarantee fund so far it has not been launched. This highlights the importance of intermediary organisation - mainly non-profit organisations - that helps to diminish real or conceived risks related to more disadvantaged groups.

This phenomenon was also reflected in the complex integration support programs for homeless persons in Hungary, which aimed at providing homeless people with housing and intensive social work to improve their employability or – preferably – employment status. Due to the scarcity of public rental housing, the majority of beneficiaries in these programs were housed in market rented housing; here, too, the intermediary organization implementing the project could negotiate relatively advantageous conditions (security during the program and a relatively affordable rent level) for project clients. Similarly to the Czech examples, this too shows how informal guarantees of a trusted organization can facilitate the utilization of market housing for social provision. (Notably though, few beneficiaries were able to keep their rented homes once the project funding was over, as the rent allowance was provided only in the framework of the program and the intermediary organizations had not more tools to ensure their guaranteeing role.)

In Poland, the housing allowance scheme also ensures that only a certain part of household income should be spent to housing costs. The related law specifies the justified housing costs and the size of housing based on household composition. Income criteria (the level of maximum income) are also defined by the law.

In Hungary a fairly progressive central housing allowance program was introduced in 2004, which could be supplemented by municipalities based on local specificities and the financial capacity of the municipalities. However in 2013 the so called "local housing allowance" was repealed from the Act on Social Benefits, and the whole social benefit system was transformed abolishing the central housing allowance and establishing the system of the so called "local social benefits" exclusively financed by municipalities. Municipalities are free to decide what kind of social benefits they want to provide. (In practice only a handful of social benefit remained centrally funded, most importantly unemployment related benefits.) The changes mean that less people receive housing allowance (before the change around 8-10 percent of all households were eligible), and the allowance amount depends on the municipalities.

In Slovakia the social benefit system was cut back radically in 2003-4 and as result housing allowance is operated as a supplement of social aid allowance, targeting the most vulnerable groups, but excluding low-income households, poor pensioners, and persons not eligible for the social aid allowance. Furthermore as it cannot help those who have no legal residency, or have arrears in housing costs (except if they have repayment agreement) the most vulnerable households are excluded from the recipients (Hojsík, 2017).

Bulgaria is the only country where the housing allowance targets mainly those who live in municipal rental, except for the means-tested heating assistance which can be allocated both to home owners and tenants. On the contrary, in Latvia only home owners and private tenants are eligible, while municipal tenants are excluded from the schemes. In other countries (e.g. Estonia, Lithuania), housing allowance targets both homeowners and tenants. Eligibility is usually tied to income level, and the calculation of the amount follows a gap formula. As for eligibility criteria, Croatia represents an exemption where, similarly to Slovakia, eligibility is tied to a certain type of social benefit. In Lithuania a specific scheme exists for private tenants who lost their homes due to *vis major*, to large families, and disabled persons, supporting their rent payment (OECD, 2016).

Despite the weak housing allowance systems in other countries, some municipalities provide rent allowance for lower income households in order to enable them to rent on the local private rental market. Such programs exist in Hungary where municipalities by doing so want to increase the affordable local housing supply for low middle class households and also by this mean they want to ensure a better supply of labour force for the local labour market.

An interesting example of including private companies in affordable housing provision is the case of Kecskemét, where the Mercedes assembly plant renewed and allocated 40 rental units to its workers on a below-market rent level. There are other initiatives which also aim at the involvement of employers' resources in financing rent subsidies: several countries plan or already introduced the cafeteria related schemes where companies can contribute to the employers' rent payment as well.

4.7.3 Home ownership programs

After the large-scale privatization of the region's housing, a way had to be found to help low income households access to housing. From the middle of the 1990s, the region's policymakers focused on developing a housing finance system, particularly one that could offer affordable loans for middle-income households. Special schemes including subsidized mortgages and tax allowances or grants for housing-related expenditure were introduced. Versions of the German contract savings scheme were employed in some countries, including Slovakia (1993), Czech Republic (1994), Hungary (1997), Croatia (2000), Romania (2003), Bulgaria (2004), but not in Poland.

As it was shown, the macroeconomic and fiscal conditions did not make possible public mass housing investments, consequently the development of the mortgage market inevitable to recover housing market, which basically in the years of 2000 started to emerge in each member states. The task was to design programs *to help low-income groups* access owner occupation, however, even middle and upper-middle income households often faced affordability problems.

The most important weakness of the homeownership program is that they primarily benefited higher income groups, and in addition created a huge fiscal burden for the governments. The programs are typically aimed at households facing affordability problems, but they are not well targeted. Even if means testing were implemented, however, it would be difficult to administer efficiently in countries where the informal economy may account for more than 30% of GDP. Countries therefore have used proxies to substitute for or supplement income limits; these proxies related either to other characteristics of the recipient household (number of children, first-time buyers, young families) or to the size and value of the housing unit subsidized. Most of the home ownership programs are used for new housing, which could have a regressive income effect.

The homeownership programs enjoyed the most political support as it always considered helping the politically active middle class. Several times the program are tied to political changes and therefore contribute the violation of the economy, put a short term over demand on the market which result fast cost and price increase and a substantial leakage of the subsidies through overcharge construction cost and mortgage cost, low quality, etc.

The homeownership support for the poor people could be effective only with special institutional settings as the homeownership mean high risk as well, as the story of the FX loans in the region showed. It was well illustrated in Hungary, where the low income groups had an excess to the FX loans in the form of the equity based loan products, and in the crises masses of the new owners lose their property.

Homeownership programs typically unpredictable, because the real value of the subsidy depends on the interest rate, inflation, exchange rate etc., that is on factors which cannot be controlled by the housing policy which initiated the program. As a consequence, the size of the subsidy could easily become unsustainable, and because the limited possibility to influence its economic cost, it force the government to cut other running programs.

The basic disadvantages of the homeownership program is that there is no possibility to keep the subsidy in the sector, that is it only contribute the affordability of the direct beneficiaries (who need or don't need the support depending on the efficiency of the targeting).

4.7.4 Housing renovation programs

Large housing estates occupy a very special position in the post-socialist housing markets of the EU. Here, the share of multi-unit buildings built with industrialized or 'pre-fabricated' technologies, and the share of these buildings located in housing estates is very high – although varies among the countries. The similarities in structure, building style, and even in the privatization process affecting them create a situation that households residing here often face similar difficulties that are of technical, managerial and social nature. They most importantly include the comparatively high utility costs households have to pay for maintenance, the difficulties of housing management – partly due to the often unusually high number of units, thus high number of owners in these buildings - and the structural deficiencies that are inherent to these buildings as a result of the construction and planning techniques used.

Given the many similarities, it is tempting to treat large housing estates as a single "problem unit", although research shows that there are big differences across the countries and also within each country if we look at their status and problems. Only concentrating on the technical issues it is safe to say that these challenges vary both according to construction periods – quality and construction standards often improved as the time passed - and countries. Different building models were adapted in the different countries, depending on the local political environment and housing regimes. It is safe to say, however, that they are generally occupied by a lower-middle income social group, including more stable middle income families in some of the higher prestige and higher quality estates; due to their often relatively costly utility consumption they are unaffordable for the poorest households, but relatively well-off households also shun them due to their low relative prestige within CEE housing stocks.

To tackle the technical challenges of these system-built blocks, subsidy programs started around 2000 in most CEE countries – in case of Slovakia preceded by a nation-wide survey of the entire stock – that have focused both on energy efficiency and the refurbishment issues, the latter including the repair of some technical failures. These largely technical-oriented programs have only sporadically taken a more comprehensive view, and included less technical elements; and they have reached a substantial amount of households. So far about 15 to 25 percent of the multi-unit housing stock in Hungary, Poland and Slovakia (substantially less in Romania, where the subsidy programme has a shorter history) has been refurbished partially as a result of participation in the state subsidy program (Gerőházi and Szemző 2015).

One of the key challenges such programs had to face was the social and income level diversity of the inhabitants, and the arduous organisational tasks stemming from their very fragmented ownership structure. Due to the gradually lessening state participation and cooperative activity before the transition, and the widespread privatization in the 1990s, such housing blocks are composed of numerous units owned individually by separate households. A refurbishment plan has to be accepted by the majority of owners, who diverge greatly in terms of income, educational attainment, values and so forth. There are three major types of owners:

- middle class or lower middle class, but with stable income, who are committed to the upkeep of the building, and can contribute to a reasonably devised refurbishment plan;
- lower middle income persons, who either have the perception that they cannot afford such an intervention, or actually do not have the means to contribute to major renovations;
- and landlords, who rent out a unit in a building block, and may have little attention or feel limited interest in the long term upkeep of the building.

Planning any intervention for maintaining the quality and status of a system built block has therefore to coordinate not only a large number of owners, but also a wide range of potentially conflicting interests.

Nonetheless, most of the available programs were successful in the sense that owner communities could use them in a financially reasonable and affordable way, and they have been effective in stabilizing the position of housing estates in their respective local housing markets. Given the competition the new constructions and single family homes mean in the housing markets, intervention into these buildings have served not only to improve their energy efficiency but to impede any form of physical and social degradation. These housing estates continue to house middle or lower middle-income people, but also retained huge variations with regard to inhabitants' social status. A threat of gentrification is not an issue for these housing blocks, but refurbishment and investment also prevented their deterioration and the type of social segregation which often plagues large housing estates (such as the French *banlieus*) in some Western European contexts.

This is an area where limited efforts to targeting is required: self-selection as a mechanism does work here, as the relatively small size of the apartments and the low prestige of such buildings compared to other dwelling types does not attract higher income groups. While here too subsidies will be easier to utilize for relatively higher status housing blocks and housing estates, they are very likely to reach a socially mixed inhabitant group, ranging from lower to modest middle-income. They key organisational challenge, which is to coordinate numerous individual owners and interests, is a difficult one, but it is alleviated by the law on condominiums which regulates this setup quite reasonably; and practical methods to manage this coordination and then the actual intervention is helped greatly by existing experience and positive examples.

One must keep in mind nonetheless that subsidies to support such renovation measures have been distributed for energy efficiency purposes rather than for social goals. This exacerbates the issue that the relatively better-off condominiums could benefit from such programs to a greater extent; and that involving social considerations in subsidy intensity could buttress the affordability aspect of such interventions.

5. Recommendations

The study has demonstrated that NMS have very different macroeconomic, social and housing conditions compared to “old” (pre-2004) EU Member States. These differences have to be taken into consideration by EU institutions when they define strategic goals, directions, and support programs related to housing. With regards to the EU’s role in housing and related issues, it has been stated in numerous outlets that housing policy is, and will remain in the foreseeable future, a national competency. Nevertheless, EU laws and regulations already affect the housing policies and housing outcomes of the member states (ranging from social goals within EU2020; energy efficiency regulations of buildings and household equipment; and other strategic goals and regulations); often in ways do not take into account the divide between the conditions and possibilities of member states with different development and income levels, diverging housing stocks, and so forth.

As shown above, the social housing sector (sometime referred to as “public housing”) is very limited in NMS; and other affordable housing options cannot make up for this shortage either (such as the safe and quite affordable private rental sector of Germany, where social housing is also limited; or countries where the social or public housing stock is significantly greater). An approach more closely focused on the problem of “housing the poor” must therefore be more emphatic; and as housing stocks tend to be in worse repair, macro-social and macroeconomic conditions different, and public budgets more restricted, NMS will also need different incentive and support mechanisms than pre-2004 member states to reach EU2020 social goals.

Due to structural limitations, the significant increase of the affordable public housing stock in a sustainable manner is highly unlikely in NMS. Therefore, state integrated forms of making housing more affordable will have to remain open towards sectors not usually considered “social”, such as private renting and owner occupied housing (as illustrated in the housing submarket matrix). The EU, and its specialized agencies providing help for sectoral development, such as the European Investment Bank or Council of Europe Develop Bank, must therefore be more flexible in their programs affecting national housing outcomes, supported by policy making in a manner coherent with realistic member state possibilities.

The housing policy in New Member States, acknowledging their special conditions, should take into consideration the following principles:

- Housing policy must deal specifically with the different social groups in need of more affordable housing: the structurally poor, who need public support in the long run; the lower middle class at risk of facing temporary hardships, which could derail a household in the long run without effective help; and the stable middle or upper middle class. Housing programs, whether they address climate change and energy efficient renovations, affordability in general, or other socioeconomic goals, has to be tailored according the needs and financial possibilities of the selected target group. Policy makers must be aware that the poor or the "middle class" in the most developed member states may have very different living conditions and possibilities than social groups under the same category in lower income countries.
- Accordingly, "affordability" cannot be measured by the same standards in all EU member states. A raw income to housing cost ratio, even when refined by income quantiles in one society, washes over crucial differences between countries. Unless adequacy of housing is also considered, the question of overcrowded or substandard housing could easily be overlooked: households living in severe housing deprivation could produce very attractive statistics, if their otherwise substandard housing with limited utilities and amenities is also relatively inexpensive (e.g. not having to pay for heating, as there is no heating in the home).
- The *adequacy* of housing must therefore also be taken into account in understanding affordability. However, when defining "adequate housing", policy makers have to consider the differing economic possibilities of different member states. Understanding the country-specific context is a must:
    a. Steering member states in the same direction is a valid EU-level goal; however, certain quality, size, and energy efficiency level may be a realistic goal in one country, while demanding the same form another may be a financially unachievable goal for another. Demanding high quality and energy efficiency in the public housing sector of one country may be feasibly, but in lower income countries the same policies would result in an even lower level of affordable housing provision.
    b. Tailoring required housing outcomes to an in-depth understanding of the baseline housing situation in a country can, however, produce intervention plans and support programs which truly fit member state needs and possibilities, and can provide meaningful help to those in need of help to achieve more *adequate and affordable* housing.
- New member states have adopted a rather liberal approach in reforming their welfare states, one symptom of which is their approach to housing provision: aside from the very limited group of social housing beneficiaries, nearly every citizen is expected to cover their housing needs on the market. However, EU regulations also seem to have advanced stronger market logic in housing provision (illustrated by the SGEI debate in public housing provision, where member states with very developed public housing solutions were forced to make their sectors more market-friendly). This should be revised in the future. EU level regulations with a strong

impact on housing provision should create and support a cooperative institutional framework of housing programs. Targeted housing support programs are in particular jeopardized by a demand for profitability; and while functioning in the most economically sustainable fashion possible is a valid requirement, it should not impede them from realizing their social goal to a reasonably wide target group – especially in lower income countries.

- Housing policy programs must be more closely integrated with the level of economic development, and a country's welfare policy environment. Where welfare provisions are limited for the poor and the lower middle class at risk of serious financial hardships, other sectors – such as housing – may be able to offset such shortcomings to some extent. In such cases, EU regulations and programs must consider these social goals as a higher priority than a universal (EU-wide) enforcement of the interest of service providers and market competition. While competitiveness is also a key EU goal, the social exclusion of relatively large groups also bears huge social costs; whereas provision for the adequate housing of these social groups greatly facilitates their social integration – in terms of access to education, jobs, and contribution to macro-level competitiveness as well.
- Finally, it is crucial that cities (functional urban areas) are the drivers of social change and economic development in European countries; however, cities are in a different situation even within a single member state, and need special, targeted programs. These individual programs must be developed and/or expanded on the local level in response to the specific demand and supply constraints in different markets.

Proposals for affordable and adequate housing for European countries (published by Housing Europe, the International Tenant Association, FEANTSA, Habitat for Humanity and other) suggested that member states develop their National Strategy on Adequate Housing as an eligibility condition to access EU funding, as part of the European Semester process.

Furthermore, to put these principles into practice, we propose that the evaluation criteria developed in this study be applied to national or local housing programs as conditions for the support of the EU or its specialized institutions (i.e. for structural funds, EIB loan use etc.). Funding should therefore be dependent on the fulfillment of *all* evaluation criteria; as omitting either of them may lead to unintended consequences which either make a program unsustainable, or (more typically) cannot effectively reach the social groups in need, and keep the invested public funding in the affordable housing sector. As a reminder, the evaluation criteria are

1. targeting, and adequate level of subsidization so that housing will in fact be affordable for the selected target group(s);
2. quality and location be considered (to avoid the externality of prolonging habitation in substandard housing, or motivating people to move to locations where they cannot access jobs and education);
3. financial sustainability: invested funds must not "leak out" of the sector, being capitalized by any of the actors: once funds are invested into affordable housing, they should be kept in the sector for its maintenance, expansion, and development so it can serve its social purpose in a sustainable manner;
4. guaranteeing a maneuvering room for households in need: should their situation change rapidly in a volatile housing or labor market, their tenure status should remain stable long enough for them to recover their position.

MRI staff and in-country experts involved in this research project collected the existing practices and housing programs in CEE member states, and overviewed their main mechanisms to identify their typical distortions and shortcomings. The principles and evaluation criteria laid out above were drawn from the experience of these programs. The programs themselves are presented in detail in the Annex; while the key lessons learned from the programs is summarized in the following sections.

5.1 Expansion of the social rental sector

The social housing sector needs major investment and expansion to house the poor. This would also require a major policy and subsidy shift to change institutional interest of social landlords (most often local municipalities), and possibilities of involving private investment in social housing construction must also be explored.

- Currently, social housing provision in NMS is typically the responsibility of local municipalities, without adequate funding provided from the central budgets. On the one hand, better-off municipalities are in a better position to provide social housing; on the other, social housing shortage may be the gravest in the localities where there is the greatest need for it.
- Limited rental income and no external funding for social housing means a perverse incentive for municipalities: their public housing stock will likely generate losses, and therefore social housing providers are incentivized to diminish social housing. They may seek relatively less poor tenants to prevent more losses in the form of arrears. This contradicts their social goal. Support for social housing provision may be very much needed in certain NMS, despite the EU's reluctance to provide support for housing goals (other than for energy efficiency targets).
- Pressuring national legislations for adopting viable and coherent housing policy strategies, and implement these consistently over time, may be necessary for reaching the EU's social goals in less wealthy member states.

Intermediary tenure forms: cooperatives providing affordable housing solutions, such as TBS housing in Poland, are extremely scarce in NMS. Developing an appropriate legal and financial framework for solutions with intermediary tenure forms could contribute greatly to affordable housing stocks, but also to stabilizing housing markets in times of external shocks.

Clearly when such a stock is developed for the benefit of lower-middle income groups, it is not a solution for housing the poorest – nonetheless, it does provide stable and affordable housing for families who could not solve their secure tenure from the market alone; and it may also help relieve the pressure on social housing provision. At the same time, the home ownership bias in NMS – despite their already extremely high home ownership rates – often puts these initiatives at risk, as privatization of subsidized units is a popular option. This depletes the already limited affordable cooperative stock, drawing funds away from maintaining and developing it. Incentives to maintain affordable housing stocks once public support was invested should be a requirement for supporting this important housing segment from EU sources.

5.2 Using the private rental for social use

Private rental housing rarely enjoys any public support in NMS; with very few exceptions, persons accommodated by the sector have to maintain their dwelling entirely by market rules. As shown above, with very limited social housing and ownership not being affordable to many, private rental dwellings actually accommodate many poor or lower middle income households as well. Many old EU member states provide substantial support, in the form of housing allowance, for lower income private tenants. A general policy direction where NMS are steered towards a tax/subsidy environment which provides help to low income persons in private rentals would be extremely beneficial for housing affordability in these countries:

- low income families could ensure secure and affordable housing despite the shortage of social rental dwellings;
- persons with very low income would not be forced into squatting, or renting inexpensive substandard housing;
- families would not be forced to take on mortgage loans which they can barely afford, and which can turn extremely hazardous due to macroeconomic changes, or even simple life events (illness, job loss etc.)

A generous housing allowance in the Czech Republic exemplifies such an approach. However, as the aspect of quality and location are not controlled, in the Czech case this subsidy also triggers the proliferation of substandard "hostels": mass accommodation of poor quality, with rental rates comparable to standard market dwellings. This also illustrates that taking only some of the evaluation criteria is insufficient for equitable and efficient housing programs.

5.3 Affordable home ownership programs

First of all, "middle class" in the context of the NMS covers a different socio-economic group compared to pre-2004 EU member states, even when the wealth and income level of the mid-range of society is considered at Purchasing Power Standard. Second, modest income persons in most NMS regions have very limited opportunity for any kind of secure housing that is not fully governed by market mechanisms (given the limited stock and access to social housing, and missing intermediary and other "affordable" tenure forms). For many NMS home owners, property is not so much the result of wealth, but the only reliable housing option – and for many, it can be very burdensome financially. Therefore, creating more secure and affordable ways of acceding and maintaining home ownership may be a perfectly reasonable approach in NMS.

Generally, home ownership programs for lower middle or middle income households should target through a range of housing needs. For instance, some variants of the cooperative housing arrangement may be considered to be adopted in a way that later privatization possibilities and leakage of public funding is limited; public investments could therefore kept within the affordable housing stock, and remain partly usable for the next generation of (lower) middle class housing needs.

In programs to assist low to lower middle income home buyers, subsidy in the form of one-off transfers (like a "cash" grant or subsidized land) may be preferable to tax subsidies or subsidized interest rates, as the latter could remain unpredictable, and risk in the long run, due to market shocks and changing financing institution interests. Targeted subsidized mortgage for low-income groups should also be supplemented with "safety net" type schemes, where the addressed modest income households have some delay ("time buffer") to cope with drastic payment changes in case of market shocks of family crises (like a death, long term illness, or loss of employment).

5.4 Supporting housing renovation

The study showed that public renting in NMS is very limited; and many factors hindered the development of private renting, which, for the most part, is still not among the secure and affordable tenure forms. Owner occupation in NMS is therefore not an indicator of household wealth: it is simply the most general tenure form, ranging from high quality to substandard housing. The drawbacks of other tenure forms also drive many families towards taking on hardly affordable mortgage loans, without being certain about their long term ability to pay the monthly instalments.

In order to strengthen housing affordability in NMS, international agencies may have to consider subsidy forms which make owner occupation safer and more affordable to low income and vulnerable target groups.

Supporting the renovation of owner-occupied housing already exists within the range of EU subsidies, although primarily geared at energy efficient renovations. These do not have clear social goals. At the same time, when targeted at dwelling types typically inhabited by relatively lower income families, such subsidies also have a loose social targeting (as exemplified by panel block housing renovation in CEE countries). Thanks to their ability to lower utility costs, they may contribute to affordability; although this scheme type was primarily shown to improve living conditions, and prevent lower prestige homes from becoming dilapidated and segregated.

Based on existing experience, such subsidies should be provided for prolonged periods, so condominiums can apply for funding when the collectivity of home owners can in fact afford it (given owners' various socio-economic backgrounds). Public funding may be limited, but it must be reliable and calculable: home owner communities are complicated to coordinate, and may be very cautious when entering into a major investment; at the same time, their willingness to invest could be helped by relatively low subsidy intensity, as long as they can be certain of acceding the subsidy.

Practice has also shown that a combination of subsidies with interest-free or low-interest loans may hold huge benefits even for quite low income home owner communities, while also being attractive to financing institutions (banks). These may therefore be well targeted to modest income home owner groups, with relatively small administration costs; and home owner associations have proved very reliable borrowers.

Finally, local or national agencies providing complex support from the application process for funding to carrying out of refurbishments (by offering technical and managerial expertise) could increase both willingness of stakeholders to launch the renovations and the quality of the works.

Appendix: Case studies of the affordable housing programs in the NMS

This appendix overviews the current schemes and policy attempts aiming at increasing the social and affordable housing supply through state integrated mechanisms in NMS countries. First we define the evaluation criteria and after we describe the programs based on the existing literature and the case studies prepared by the local experts.

Some of the described schemes are long-term, while others are short-term or pilot projects. The schemes also vary by their level of innovativeness and their primary target groups. In the following the schemes are described by focusing on the way and scope they operate, their institutional settings, their target groups, and their limitations to scaling them up.

Table 21. Illustration of the programs overviewed

Public Rental - municipal/state
EE – municipally led PPP construction of social and affordable rentals
HU – National Asset Management Fund social housing program linked to defaulted mortgages
HU – City of Szombathely Social Accommodation program to rescue defaulted tenants
SK – state funded municipal affordable rental housing
PL -- Social Housing Associations (TBS)
HU - Social Housing Construction Program -- Ócsa
Public Rental - mixed structures
PL – TBS – Social housing associations constructing new affordable social housing
PL- Poznan's affordable housing efforts: cooperation between a TBS and the Municipality
HU - Kecskemét: cooperation between the Mercedes and the municipality
HU – Veszprém mixed scheme: Social Rental Agency, a joint non-profit company of Hungarian Charity Service Organization of Order of Malta and the municipality, managing the municipal and NGO owned housing stock
EE -- Tallinn: rental construction in PPP scheme
Sl -- Non-profit rental housing and rent-setting in Ljubljana
Private Rental
CZ – housing allowance for households in private rentals (with NGOs intermediating in the market + guarantee fund pilot.)
HU – Supported housing programs for homeless
HU – Some municipalities: municipal rent allowance for low income households renting in private rental market
HU – Veszprém Social Rental Agency plans to include units private rental market in the affordable housing provision
PL – Municipalities renting from private market to house households in the waiting list (small scale programs)
CZ – housing allowance scheme for low income homeowners
Owner Occupation - new construction
HR – POS program (interest subsidy, capital grant
HU – Family Home Construction program
RO -- Young family mortgage support
Owner Occupation - renovation of existing homes
PL -- Polish Modernization Fund
SK – State support for renovation and modernization
LT - Riga energy efficient renovation

A1. State/public integrated public rental – municipal/state

A1.1 Development of Social Housing Associations in Poland

In Poland the model of **Social Housing Associations (TBS - Towarzystwa Budownictwa Społecznegowere)** was introduced in 1995 in order to increase social housing of good quality paying special attention to energy efficiency. The TBSs can be public entities founded by municipalities but also private entities. The model is financed by state subsidized preferential loans and by the contribution of future tenants, the latter one is 30% of the investment costs (which is reimbursed when the household leaves the sector). Municipalities can also contribute to the investment costs and thus decrease the amount of loan. The rent has to be cost-based including the loan payment, consequently if municipalities pay a part of the investment costs, the rent can be lowered. Households eligibility criteria is mean-tested, has to be below a certain level defined as regional average income. In order to ensure that households can pay the rent many TBS set a minimum income level as well. Consequently the TBS scheme targets those households who have moderate but stable income, thus the model is rather an affordable rental housing scheme excluding the low (and unstable) -income households. The rental contract is for indefinite period and the tenancy can be inherited. The scheme also aimed to stimulate mobility in the social housing sector, providing an opportunity for the lower middle class family to leave the old – mainly pre-war - public rental sector of very bad quality and make them available for low-income "social tenant". According to the regulation of TBS there could be a future opportunity for their privatization; however, despite several political initiatives, it has not been allowed so far (Muziol-Weclwowicz, 2013).

In the framework of TBS scheme around 80,000 units were built amounting to only 0.6 percent of the total housing stock due to the scarce availability of funding scheme, especially the preferential loans funded by the central government. By 2010 the central government funding to TBS housing construction was abolished The new National Housing Program "Home Plus" has a strong focus on new public housing construction but no concrete measures has been formed yet. However, in some of the cities the local importance of the sector can be much higher. The TBSs and municipalities have diverse relationships, TBSs often manage municipal stocks, but some of the municipalities rent units from TBSs in order to meet their statutory obligations to provide social housing to those who are without housing. In latter cases the municipality pays the gap between the TBS cost-based rent and the social rent (Muziol-Weclwowicz, 2013).

A1.2 Slovakia: financing and expansion of municipal housing

Another country is **Slovakia** that has been running a long-term **municipal rental housing program** in order to increase social housing. The situation at the beginning of the nineties was characterized the decentralization of housing provision from the central to the local level (part of a wider decentralization process), the liberalization of prices, and the privatization of the State property. These resulted in the decrease of new housing production, increase of homeownership and consequently nearly eliminated the rental housing stock. At the same time the new housing market failed to deliver affordable housing to meet the need of households. Housing policy reform responded to these significant changes. Taking into account various Western European housing systems, where public/municipal and non-for-profit agencies combine their efforts to increase the supply of affordable rental housing, the Slovak government decided to improve access to adequate and affordable housing.

The State Housing Development Fund was established in 1996 as a revolving fund to finance state support for the expansion and construction of housing; and in 1999 the Government of the Slovak Republic approved the Program of Housing Development (PHD). These two instruments are the basis of the current public rental housing support system. Since 1999 the state has been directly supporting municipalities in financing housing development through the PHD.[11] This Program is managed by the Ministry of Transport and Construction of the Slovak Republic.

According to the Act the state provides subsidies for the acquisition of rental dwelling for purpose of social housing, the acquisition of technical infrastructure (necessary for the use of rental dwellings), and the elimination of systematic defects in residential buildings.

Table 22. Program of housing development of the Slovak Republic (2000-2016)

Program tranche	**Nr. of muni-cipalities**	**Number of contracts**	**Number of dwellings**
1. Acquisition of rental dwelling for social housing purpose	962	2 282	40 858
2. Acquisition of technical infrastructure (for rental dwellings)	-	2 521	58 029
3. Elimination of systematic defects of residential buildings	-	2 729	147 455

Applicants for tranche 1 and 2 of PHD may be:

- municipalities, in case of Bratislava and Košice also city districts,
- self-governing regions,
- not-for-profit organization providing services of general interest in housing, administration, maintenance and renewal of the housing stock, whose founder or one of the founders is the municipality or higher territorial unit, if their deposit accounts for at least 51% of organization assets and in the board of directors represents more than half of their members.

Table 23. Preferential loan conditions for the acquisition of a rental dwelling

<table>
<tr><th>Applicant</th><th>Max. amount of support per dwelling</th><th>Share of the acquisition cost</th><th>Interest rate (fixed)</th><th>Maturity</th></tr>
<tr><td rowspan="2">Municipality, self-governing region, NGO</td><td rowspan="2">65 000 euro</td><td rowspan="2">up to 100 %</td><td>1%</td><td rowspan="2">40 years</td></tr>
<tr><td>0 % in the least-developed districts[12]</td></tr>
<tr><td>other legal entity</td><td>60 000 euro</td><td>up to 80 %</td><td>1%</td><td>30 years</td></tr>
</table>

The Act further specifies the conditions for providing subsidy for acquisition of rental dwelling for purpose of social housing. The amount of the subsidy for the acquisition of rental dwelling is set up as follows:

Table 24. Slovakia: Subsidy amount for social dwelling construction and acquisition

[11] The rules for provision of subsidies were set up by secondary legislation until 2010, when the Act No. 443/2010 Coll. on subsidies for housing development and on social housing was approved by the National Council of the Slovak Republic

[12] Act No. 336/2015 Coll. on Least-developed districts, aim of this Act is to support territorially balanced development of Slovakia.

	Avg. floor area of dwellings	Avg. acquisition costs per m²	Maximum share of subsidy
NEW CONSTRUCTION AND PURCHASE			
USUAL STANDARD	up to 50 m^2	940 euro	40%
	between 50 m^2 - 56 m^2	930 euro	35%
	between 56 m^2 - 60 m^2	920 euro	30%
DIFFERENT STANDARD	**up to 45 m^2**	645 euro	**75%**
	between 45 m^2- 55 m^2	625 euro	**70%**
REBUILDING			
USUAL STANDARD	up to 50 m^2	690 euro	40%
	between 50 m^2- 56 m^2	680 euro	35%
	between 56 m^2 - 60 m^2	670 euro	30%
DIFFERENT STANDARD	**up to 45 m^2**	470 euro	**75%**

From the table it is clear that in Slovak conditions are distinguished two types of supported housing – usual and different. Except for the differences in size and market price (see table above), 'different standard' dwellings have also simpler equipment (basic sanitary objects, local heating system). Social rents may be determined maximum up to 5 percent of the acquisition costs per year. So with the determination of maximum acquisition costs the Ministry of Transport and Construction of the Slovak Republic pursues the objective of housing affordability for eligible low income tenants. Based on this the 'different standard' dwellings are mainly determined for marginalized population groups (the most deprived, with very low or no income etc.). The municipalities often reach out to the possibility of different standard dwellings acquisition, because the rent is much lower and tenants (mostly dependent on social benefits and with no regular income) are able to pay it.[13] While this solution often leads to stigmatizing interpretations, such as being popularly understood as 'housing for the Roma' due to their often marginalized position, there are many positive examples as well, where different standard dwellings are used as the first housing for young individuals, families or emergency housing.

Other conditions for providing acquisition rental dwellings subsidy are:

- maintain the social rental status of the acquired dwelling for at least 20 years (valid for dwellings supported from 2016);
- maximum floor area of the dwelling 80 m²;
- when purchasing a dwelling, final building approval not older than 3 years;
- rental contract for fixed period (3 years or 10 years in specific cases – disabled people).

[13] Housing allowance in Slovakia is a part of state aid for those in material need according to the Act No. 417/2013 Coll. on assistance in material need and on amendment of certain act as amended. The Act on material need defines material need as a state, in which the income of the citizen and the natural persons jointly assessed with the citizen, does not achieve the subsistence minimum, and the citizen and the jointly assessed natural persons are unable to secure or increase the income through their own endeavours. In addition to the social assistance in material need, the act makes provision for allowances to the benefit, namely the protective allowance, activation allowance, housing allowance and dependent child allowance, which are component parts of the assistance in material need. The amount of the housing allowance is set: 55, 80€ monthly for individual in material need and 89, 20 € monthly for household with more than one member. Existing scheme does not cover the real housing costs. Slovakia lacks of efficient support on the demand side of housing.

An important condition municipalities must fulfil in order to receive the central subsidy is to ensure their own resources at the level of the difference between the eligible costs and the requested subsidy. Own resources are mostly ensured by favorable loan from the State Housing Development Fund.
The Ministry of Transport and Construction of the Slovak Republic also provides subsidies for acquisition of technical infrastructure of municipal rental dwellings. This is provided up to 70 percent of acquisition costs. For technical infrastructure to increase the social and cultural level of Roma settlements subsidies are granted up to 80 percent of the acquisition cost. Supported technical infrastructure may include: public water supply and water connection; local communication including public lighting; public sewage system including water treatment plant and sewer connection; parking area related to the rented dwelling. This program is financed purely from the state budget, which is also its key vulnerability. Ensuring availability of funding from the state budget is unfortunately complicated and applicants have no legal guarantee that they will be available in the coming year. This is one of the reasons local authorities are often hesitant to initiate a new project.

The scheme, managed by the Ministry of Transport Construction and Regional Development, dedicates a specific amount of funding to the program annually, for which municipalities can apply (in 2017 it is € 10 million, aiming at around 700 units). The central government provides capital subsidy (up to 40% of the investment cost) and subsidized loans to municipalities for construction and purchase of dwellings. The loans are provided by the State Housing Development Fund. From 2017 the possibility to fully finance the investments through preferential loans has been made available for municipalities. The eligibility criteria of households to have access to the new stock is set by the central government in terms of households income; the household per capita income cannot be higher than three times of subsistence minimum (in the case of special types of households – e.g. disabled people – the limit is 3.5 times). This means a widely targeted scheme for which practically 60-70 percent of all Slovakian households could be eligible. This means that the scheme can be conceived as affordable rental rather than strictly social rental.

So far around 36,000 units were built or purchased. However, an unintended outcome of the program is that majority of units were built in villages and smaller towns, as bigger cities with good labor market position were not interested in the program. The main reason for this the scarcity of municipal land in large urban centers, which even if exists is used to other purposes in order to generate income for municipalities.

A1.3 Hungarian mortgage rescue program 1: transforming homes of insolvent mortgagors into state rental housing

Paradoxically, the rescue program of insolvent mortgagors has been the largest social housing program since the change of the regime in Hungary. The program is managed by the National Asset Management Company (NAMC). The NAMC was introduced in 2010, although it only became active on the market in 2012. The goal of this new institution was to purchase the property right of the defaulted borrowers from the banks. The transaction takes place at a centrally determined price; it clears all the mortgagor's remaining debts towards the financial institution; and it is automatically applicable to all households that apply, and correspond to the legal criteria (as a consequence, a fairly large number of defaulted borrowers can rid themselves of their debt burden, in case their home is designated for foreclosure). Former owners become tenants in their home, which becomes state property. They have the option of buying back their property within 6 years.

An additional measure of the program is that it provides social counselling for those tenants who are still unable to pay even the low social rent because of other remaining debts (typically related to utility costs and short-term loans). The NAMC has contracted several social service providers (large NGOs) to help households to cope with their arrears and improve their financial situation. The program can be regarded as a special insolvency scheme though it does not provide any additional funding to the households.

NAMC purchased the first round of housing units in 2012, and it has a budget to buy out 35,000 units, which was almost fully used by 2016. Some critiques remark that the stock bought by NAMC tends to be low quality, and is predominantly situated in underdeveloped or remote regions, since households usually apply if their home is worth lower than the home's market value.

A1.4 Hungarian mortgage rescue program 2: Social Housing Construction Program

Another scheme to rescue the mortgage debtors was the Social Housing Construction Program. The plan to build 500 state owned, low rent social housing was announced in 2011, in order to save foreign-currency mortgage debtors who already lost their housing, or was about to lose it on foreclosure. The Social Housing Construction Program soon became a priority government investment. The program had been debated was debated widely since its announcement: the feasibility, and even the necessity was questioned as the allotted project site was an external area of Ócsa, a small town 30 km south of Budapest, with bad public transport connection. Residents already in financial trouble had trouble finding work there, or find and easy way to commute. The risk of segregation of the settlement with 500 units was also conceived as a future danger. Another main disadvantage of the scheme was that the households' remaining loan debt after the foreclosure was not cleared, therefore beside the housing costs they still had to pay the instalments as well.

After substantial delay, the construction started in 2013, but eventually only 80 units were built. The investment costs were high as there was no public utility system on the site[14]. In the technical design of the houses the low maintenance costs had priority, therefore prepaid electricity meters, and instead of gas heating wood stove were installed. Although piped water supply provided later on the wells were drilled because of the high water bills.

The estate is managed by the National Asset Management Company. Households could apply for the houses from all over the country, families with children enjoyed priority. Nevertheless, the units were rent out only in several rounds as many households did not want to move away from their original place of living. There will be no continuation of the program.

A1.5 "Social accommodation" rental scheme in the city of Szombathely

"Social accommodation" is an innovative solution launched by the municipality of Szombathely focusing on the neediest of the social tenants. In order to prevent homelessness among the municipal tenants who accumulated substantial rent arrears, the town gives lower comfort (but still with inner-bathroom facilities) dwellings to tenants who are unable to pay even for the low social rent and utility payments of their apartment. Most of the tenants provided with social accommodation had previously

[14] The total construction cost of the 80 detached houses sized 50-80 sq.m. was 2.5 billion HUF, for which in the town of Ócsa a 200 sq.m. house with full comfort could be bought at that time.

lived in higher comfort flats with district heating but with substantially higher maintenance costs. The municipality sets a very low rent level for those who stay in social accommodation and provides substantial financial help to pay off their debts, requiring tenants, in return, to cooperate closely with social workers. Although the original idea was to help out households until they manage to overcome their (supposedly temporary) problems, it seems that some of the households simply prefer staying in the lower quality but more affordable unit in the long run.

A1.6 Tallinn: Public rental construction in PPP scheme

Between 2002 and 2007, new housing was constructed in a municipal program called '*5,000 New Residential Dwellings for Tallinn*' (Residential Construction Program I – RCP-I, 2002). It was aimed at constructing 2,000 new affordable rental and additional 3,000 market dwellings in a PPPs scheme by 2007, in order to expand the residualized stock of affordable rental units in the capital city, as well as to decelerate the rapid inflation of housing prices in the boom period. It also aimed at solving the housing problem of tenants still residing in restituted dwellings, to be vacated in the upcoming years. Part of the 2,000 affordable units would be in direct municipal ownership, others used as private dwellings owned by the developers in the PPP scheme, leased to the municipality to allocate to eligible households. The 3,000 market dwellings would be owned by the developers, and typically sold on the market. The Municipality of Tallinn allocated municipal land and technical infrastructure for development, and the state provided funding, covering 25 percent of direct costs. The main criteria for choosing potential locations for subsidized rental housing developments were a) that the land is available for the municipality or is in the municipal ownership; and b) the areas are not attractive to private sector developments, and their regeneration is unlikely without public support.

The main target group for subsidized rental housing was tenants living in restituted housing, and to lesser extent, social welfare clients. Subsidized owner-occupied housing was mainly intended for tenants living in restituted housing and also young families. Eventually 914 municipally owned rental housing units were built; and another 680 within the PPP scheme to be leased to the municipality, in 5-8 floor buildings, and relatively spatially concentrated. Around 1,000 dwellings were built as subsidized privately owned owner-occupied housing (built as detached, semidetached, or apartment housing). The rest (cca. 2,000 dwellings) were planned to be built as solely private initiative without any public subsidy.

The rent to be paid by tenants was set at EUR 1.53/m^2/month in social dwellings in local authority ownership, which is considerably lower than the market price. The rent was supposed to cover the management and maintenance costs, but not construction costs. In dwellings built as PPPs – built on municipal land and leased from private developers – the rent level was set at EUR 6.9/m^2/month towards the developers, of which EUR 1.76/m^2/month (i.e. 26% of the total rent) is paid by tenant to the municipality.

Figure 19. New social rental buildings on Raadiku Street, Tallinn

Photo: Anneli Kährik

The follow-up to the RCP-I program was the 'Residential Housing Construction Program for Tallinn' (RCP-II, 2008), with a substantial change in the target group: its main aim was to attract 'key workers' into the capital, and to improve the housing opportunities of young families. It also intended to stabilize the rental sector in terms of size, rent levels, and sustainability. Part of the newly constructed dwellings was municipally owned, while the remainder in this program became privately owned by the developers, but all of it was converted into long term municipal leases. The local authority contributed to these projects with the provision of technical infrastructure only, the land has been private in this case.

Young families or single parents with children under 16 were eligible on the one hand, and specific groups of employers on the other, such as public sector professionals with below average income (working in educational institutions, social welfare services, health services etc.) Finally, social welfare recipients were also eligible. 1,214 new dwellings were built in PPP schemes by private developers between 2009 and 2011. The rent was expected to cover around two-thirds of the cost rent level in affordable rental units, and 50 percent of the market rent in the private sector dwellings. It was also planned to be differentiated by target groups, amounting to two-thirds of cost rent for the 'key workers' and five-sixths of cost rent for 'young families'; approximately USD 6.5 per square meter per month on average. Rent was planned to be increased by 5 percent annually, shifting initial rent to cost rent level over a seven to ten year period. However, the rent level was eventually set at a much lower rate than planned, and has not been increased. With the decision from 2010, the actual rent has been EUR 1.92 per square meter, plus communal expenses, which is considerably lower than the market rent in the area.

A2. State/public integrated public rental – mixed structure

A2.1 Not-for-profit rental housing and rent setting in Ljubljana

The Housing Fund of the Municipality of Ljubljana (HFML was created in 1992 as a public institution for affordable housing provision, mainly through not-for-profit rented housing. The HFML's primary mission is to provide affordable housing to low-income and vulnerable groups, although later the institution also launched a measure to help prospective homeowners. The main activity of HFML is to provide rental housing at affordable regulated rent levels.

The HF of Ljubljana has four main ways of expanding its supply of rental housing:

- Exploitation of existing capacities (conversion into housing of currently idle properties owned by other Ljubljana municipal departments).
- Joint investments with the Housing Fund of the Republic of Slovenia in new housing construction.
- Active land development policies which include the provision, by the Municipal Urban Planning Department, of land for housing construction purposes, to prospective investors in new housing construction. This instrument normally requires the investor to provide to the Ljubljana housing fund a certain number of dwellings within a particular new housing development.
- PPP rental program (contracts with private market landlords – described in the contribution on Slovenia).

The main sources of financing for the expansion of the Ljubljana HF rented stock include income from property sales and parking space letting; rent revenue; contribution from the Ljubljana municipality budget; and loans. With regards to the latter, the HF loan capacity is currently limited by the government to 10 percent of its capital value, although the Fund has, for some time, been engaged in and continues discussions with the government to raise the loan ceiling to 20 percent. The HF also aspires to secure EU funding in the near future.

Eligibility conditions include Slovenian citizenship and permanent residency in Ljubljana, although other EU citizens may also be eligible on the principle of reciprocity. Applicants are eligible if they are victims of family violence temporarily housed in mothers' homes or emergency shelters; or disabled persons who either use a wheelchair or need constant assistance, provided they have employment within the Municipality of Ljubljana. The allocation process is means-tested, and the income ceiling is determined as a percentage of the average net salary in Slovenia during a particular period (typically the previous year).

Eligible applicants are grouped into two categories: category A beneficiaries belong to the lowest income group, and are not required to pay anything; category B recipients, with slightly higher income, are required to pay a modest 'personal contribution' as well as a deposit. The contribution is a refundable amount, which the tenant is required to pay before allocation, refunded after 10 years at a 2 percent accrued interest rate. While the rent levels are controlled by state regulations for all the occupants of not-for-profit rented dwellings, the category A recipients are also entitled to a rent subsidy which they may apply for upon taking up residence in the secured not-for-profit dwelling. Although the rent level for Category B tenants is supposed to cover all the urgent housing costs (including management, maintenance and renewal), municipal housing funds countrywide have been claiming that even these state regulated rent levels fall short of adequately covering costs. The Ljubljana HF pursues a policy that usually determines rent levels at the time of allocation of rental housing, in accordance with the relevant regulations valid at the time.

Currently, the average rent for a 55 square meter municipal dwelling in the capital is around EUR 180, or approximately EUR 3.2 euros per square meter. In comparison, a 2015 survey of the private rented market revealed the lowest rent to be around EUR 4.17 per square meter, the highest was EUR 22, while a detailed analysis of the survey results showed that 43 per cent of the investigated landlords charged between EUR 9 and 11.99 per square meter. The number of available not-for-profit rental dwellings, however, if insufficient to house all eligible applicants: in 2016, for instance, 250 dwellings were announced, 278 were eventually allocated, while the total number of applications was 3,132. This clearly indicates the gravity of the housing affordability problem in Slovenia, and particularly in Ljubljana.

A2.7 Poznan's affordable housing efforts: cooperation between a TBS and the Municipality

The city of Poznan, and especially its city center, has been facing a long term decline in population, partly due to the outmigration of its population to surrounding smaller (more affordable) municipalities, due to the severe shortage of affordable housing options within the city proper. As a result, a growing share of the surrounding population would use city services, facilities and infrastructure, while paying local taxes to the municipality registered as their primary residence, making the maintenance of city infrastructure and financing of services (schools, health care facilities, public spaces and so forth) increasingly burdensome. As a response, the municipality of Poznan initiated a research project on the needs and preferences of its residents, to map out the basic elements of a program to keep city dwellers within its borders, and possibly attract newcomers. The results suggested strong demand for affordable housing, and a steep, roughly 30 percent price difference in housing and rent levels between Poznan and the surrounding suburban residential areas. Moreover, city dwellers – in line with national preferences – were typically motivated to choose owner occupation instead of renting if they had the opportunity.

The primary solution to this challenge was conceived to be provided through the local TBS company, *Poznanskie Towarzystwo Budownictwo Społecznego sp. z.o.o.* (PTBS). Although the municipality has its own housing stock, it was financially unsustainable, as the stock is quite limited, tenants enjoy very strong protection (e.g. inheriting the rental tenure, regardless of the income status of the heir), and according to the law on municipal housing, even relatively well-off tenants have a right to a preferential rent level in municipally owned public housing. The City of Poznan therefore entered into cooperation with PTBS, with the aim of constructing new residential dwellings as well as auxiliary infrastructure (public and recreational spaces, commercial units, public services like schools and health care facilities). The municipality would provide the land for development. A preferential loan disbursed by the European Investment Bank (EIB) would cover approximately half of the total investment financing, completed by co-funding from the European Strategic Investment Fund (a joint initiative of EIB and the European Commission). The remainder of the investment is shared between the city budget, PTBS's own sources, and various agents such as employers, civil society organizations, and future tenants. The first phase of this projects runs until 2020; in this period 1,100 dwellings are to be finalized, providing a mix of moderate rent dwellings and rent-to-buy apartments.

Eligibility criteria for tenant-beneficiaries are defined by the municipality. Preference is given to families with children, as well as to eligible tenants who leave PTBS or Poznan-based municipal (social) housing. The rent settings in the newly constructed dwellings will be similar to PTBS's levels, which is more appropriate for middle income households (3rd income decile and upwards), while those leaving social rental units for the better quality new apartments will liberate low-cost housing for low income households.

A2.3 Kecskemét: municipal rentals used as affordable employee housing

In 2016, the Mercedes vehicle assembly plant based in Kecskemét, Hungary, provided 40 municipally owned rental apartments for its employees, for 63 tenants in total including family members moving in together. There are approximately 1,500 municipal dwellings in the city of Kecskemét, half of which are let out on near market rent levels, and on market conditions; the remainder function as social rental units. The apartments involved in Mercedes's program were renovated by the municipality's asset management company; they remain in municipal ownership, while the company acquired the right to allocate tenants for 5 years in 2016.[15]

Most of the units are 43 square meter, six are 51 square meter in floor area; they are located in former military barracks, currently owned by the Municipality of Kecskemét. The rent of the smaller apartments is HUF 21,000; that of the larger ones is HUF 51,000 per month (cca EUR 68 and 81). Market rent levels in the area range between HUF 65,000-95,000 (EUR 210-310). Tenants are selected based on complex criteria, like time spent as employee at the company, and the distance of their current residence; but preference is given for certain at-risk groups as well, like single parents. Regarding the scale of the measure, a news portal reporting the initiative found about 120 market rental units in major advertising platforms.[16]

A2.4 VESZOL social rental agency

In searching for new models to improve the management of municipal housing and to increase the affordable housing supply for low income households, the city of Veszprém introduced a model by establishing a management company jointly owned by the municipality of Veszprém and an NGO, the Hungarian Charity Service of the Order of Malta (HCSOM). The new non-profit company, called Veszprém Social Rental Agency (VESZOL) took over the management of municipal rental stock of 186 units in 2016, manages social housing dwellings (only 4 units) owned by HCSOM, and plans to involve further units from the private rental market owned by private persons. Regarding the municipal stock a main focus of VESZOL's activity is to manage the large accumulated arrears of the tenants by providing them intensive financial and social counselling. They also aim at the better use of vacant municipal housing by refurbishing and renting out the units.

VESZOL intends to be active in developing new schemes for affordable housing, plans to take over the management of the unused state owned stock (belonging to the Armed Forces) and also to closer cooperate with the local larger companies who are lack of labor force. The VESZOL is a good example that an independent housing company can deliver innovative housing schemes in a more efficient way. A proof for this is that other cities show interest in introducing similar model after learning about the Veszprém example.

[15] http://nol.hu/gazdasag/kisvarosi-csoda-1625849 news piece dated 1 August 2016; last accessed 19 September 2017.

[16] http://24.hu/fn/penzugy/2016/02/05/a-mercedes-havi-25-ezer-forintert-kinal-alberletet-a-dolgozoinak-kecskemeten/ news piece dated 5 February 2016; last accessed 19 September 2017.

A3. State/public integrated private rental

A3.1 Central government housing allowance to private rentals

In the **Czech Republic** the share of the rental sector in the total occupied housing sector is substantial, amounting to 22.4% of the stock (Czech Statistical Office, 2015). Out of the total housing stock, the public (state/municipal) stock is only 8.3%, another 2.9% belongs to housing cooperatives, while other 11% can be regarded as private market rentals (owned by private or legal persons), which means that unlike most post-socialist countries, the rental sector constitutes a significant part of the housing system. It is important to note that public rental housing is not synonymous with social housing: a considerable part of it has near-market rent levels, is not allocated according to social criteria, and many municipalities exclude households with arrears. Compared to other countries there is also a fairly generous housing allowance system paying the gap between the families' actual housing costs. The housing allowance is intended both for tenants and homeowners, which phis provides an opportunity to **support low income households** who cannot get access to ownership to find housing in the **private rental sector**.

All tenants registered as a permanent resident in the given property are entitled to a housing allowance if 30% (in Prague 35%) of the family income is insufficient to cover housing costs; real or prescriptive (normative) housing costs are taken into account, whichever of the two is lower. Prescriptive housing costs are set for several categories of family size and size of municipality; they are amended annually by the Ministry of Labor and Social Affairs based on the changes in the housing expenditures of Czech households. Due to general rent deregulation (accomplished in 2012), prescriptive housing costs have recently been set at levels that reflect housing expenditures in the private rental market. The remainder of the prescriptive housing costs above the amount paid by a household (30% or 35% of its income) is covered by a housing allowance. There is no explicit income limit to be eligible for a housing allowance but this ceiling implicitly follows from the formula that counts with household income. Housing allowances are fully paid from the state budget (as a part of wider social support). There was an attempt to divide this responsibility between the state and municipalities few years ago but the proposal did not overcome hard opposition from representatives of municipalities.

An additional allowance – the housing supplement - addresses cases where a person's or family's income, including the housing allowance, is insufficient to cover justified housing costs. The benefit is provided to households who are eligible for subsistence allowance (living minimum). The amount of the supplement is determined separately for each individual case by the Labor Office and in such a manner that after the person or family has paid all justified housing costs they 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. If approved by the Labor Office the benefit can be allocated also to beneficiaries who have neither an ownership title nor a rental contract (such as subtenants, people living in dormitories, lodging houses and other less secure housing forms). Both social benefits can also be paid directly to the landlord if the social security department of a particular municipality approves the request from the landlord.

The declining share of public housing was thus compensated by generous housing allowances that could equally help households both in the municipal and private rental housing segments. The housing allowances relatively effectively addressed the problem of housing affordability. However, they did not effectively address the second problem of disadvantage, social exclusion, and discrimination.

However, the most vulnerable/marginalized groups (such as the Roma, homeless etc.) suffer from discrimination, not only in the private but also in the municipal rental sector. These are typically the marginalized groups who do not find housing in the formal private rental sector, not even with the help of the generous allowance due to systemic discrimination, and find themselves in increasing numbers in substandard dormitories and lodging houses (‘hostels’), with poor locations and transport connections, and at market or higher-than-market rent levels. Such hostels have been mushrooming in the Czech Republic in recent years due to the perverse incentive created by the profitability of the generous housing allowance, with no precise regulation on housing standards. Despite the fact that there is often a formal contract signed to obtain this form of accommodation, the quality and space standards are low and buildings are often located in spatially segregated areas. The number of people living in hostels (privately owned for the large part) has risen dramatically in the last decade in the Czech Republic; to about 27,000 people living in about 700 hostels in 2014 (from about 11,000 people living in hostels in 2008). To cope with this problem, a pilot project was implemented in which the state provided Guarantee Fund for landlords in case they rented out their dwellings to vulnerable people. Although there is a plan to establish a permanent guarantee fund so far it has not been launched.

However, the generous housing allowance system also makes it possible for regular private rental dwellings to be used as social housing, and several NGOs are involved in acting as intermediaries between vulnerable households and private landlords. For example, the NGO Centrom concluded an agreement on cooperation with the largest private landlord in the country, RPG-Flats, in 2010 and, based on this agreement, they managed to find accommodation for several vulnerable and homeless households in flats owned by this professional landlord. Another active NGO, Romodrom, was involved in a social innovation project and based on its own experience formulated a methodology for acting as effective intermediaries between Roma households searching for rental housing and private landlords, including small accidental landlords. According to this methodology, they work only with those landlords who are not ‘usurers’ (i.e. they do not charge rent that does not reflect the size, quality, and location of the dwelling) and their dwellings are not located in spatially segregated neighborhoods; the landlord must also agree with then tenant registering the flat as their permanent residence. Until now, they successfully accommodated up to 100 households, especially in the North-Moravian region. Recently, the NGO Romodrom also established the Social Rental Agency and pilot different modes of intermediation in housing provision: (1) intermediation between vulnerable household and private landlord, after which normal rental contract is concluded between them; (2) renting the flat of private landlord by NGO and subletting it to the vulnerable household. Finally, NGO Romodrom also thinks about buying their own properties and rent them directly to vulnerable households.

The scale of adequate (in terms of quality and size) private rental dwellings used to accommodate the poor in the Czech Republic is significantly constrained by the lack of a system of guarantees that would decrease the risks connected with providing housing to vulnerable households (risk of rent arrears, home damage or additional judicial costs relating to justified notice). Guarantees provided to private landlords would, under certain circumstances, function as an insurance against rent arrears and other damages caused by tenants. The governmental Agency for Social Inclusion launched a pilot for the system called ‘guaranteed housing’, which was designed for households at risk of social exclusion and low housing affordability. However, owing to management failures the scheme has not been tested in practice at the end. The system of guarantees thus remains only a common subject for policy oriented workshops.

A3.2 Private rent subsidies by municipalities

In **Hungary the private rental sector** is also used to help those who have social housing need although on a much smaller scale. Some municipalities give rent subsidies to tenants (e.g. Kecskemét, Szombathely) as a support to those lower income households who can find accommodation only on the private rental market, because of the shortage in municipal social housing. A significant difference between the Hungarian and Czech schemes that in Hungary the municipalities have to finance the rent subsidy as there is no central housing allowance scheme.

Szombathely (a city with a population of 80 thousand people) 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 considers 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.

The city of Kecskemét runs a similar scheme, on a similar scale. 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. A difference between the two cities that while in Szombathely the subsidy is transferred to the landlords, in Kecskemét the municipality gives the subsidy to the tenant in order to avoid rent increase as landlords tends to set higher rents if they learn about the subsidy.

A3.3 Program supporting cross regional labor mobility

In Hungary a program supporting labor mobility was introduced in 2012 for those who lost their job in collective dismissals and managed to find a job more than 100 km away from their home. The program provides rent subsidy for the migrants. Furthermore, a special pilot project was developed in the framework of the program in which the labor offices of two counties hit by high unemployment closely cooperate with the labor office of a county with a much more thriving labor market. The labor offices survey the unemployed people and organize the potential jobs and accommodation for the unemployed, also giving them training, if necessary. As the experiences show, finding accommodation has not proved to be a problem in workers' hostel-like accommodation, which dominates the market. The program is very costly as it provides high subsidy to rent and utility payment but only for 18 months, after which people have to cover their own expenses. For various reasons the take up of the scheme has remained low albeit it addresses a very relevant problem, especially recently, when in some places the unmet demand for labor force is very high.

Slovakia also introduced a similar type of rent allowance: persons registered at the labor office for more than three months and are hired more than 70 km away from the original residence are entitled for mobility allowance to cover part of rent in another town. The beneficiary receives 80% of the actual rent up to EUR 250 per month during a period of six months. Disadvantaged jobseekers (younger than 26 years, older than 50 years, registered at labor office longer than 12 months, low-educated, third-country national, care-taker or handicapped) receive 80% of actual rent up to EUR 125 per month during additional six months.

A3.4 The role of private rentals in homeless integration programs

Since the early 2000s there have been programs in Hungary that support the housing of homeless people in order to decrease the number of rough sleepers. The first ones were nationally funded, the subsequent ones were EU funded programs. Such programs varied in terms of their complexity and length, but shared the common feature that they mostly relied on the different types of private rental dwellings as conventional housing and private workers' hostels because of the scarcity of municipal social housing (similarly to Portugal, and in stark contrast with Western and Northern European countries where Housing First type programs are implemented in public task housing). The EU funded paid rent subsidy to homeless people coming from institutional accommodation or from the street. The schemes supported individuals and not households, thus co-habitations (shared tenancies) were quite common. The homeless service providers, both public institutions and NGOs, play a substantial role in finding apartments and mediating between private landlords and the homeless clients in order to mitigate the discrimination against homeless people. Different solutions were devised: in some cases the NGO rented the apartment and then sublet it to the homeless people, although it was also common that the homeless people directly contracted with the landlords. Nevertheless, in a few cases, especially on more dynamic housing markets, the service providers decided to withhold the information that the future tenants come from homelessness. A significant deficiency of the programs was the short term of the rent allowance (from 6 months up to 2 years), assuming that homeless people will get job and will be able to sustain their own independent living within that timeframe. Although only a smaller part of the beneficiaries could maintain their housing as no financial help was provided after the program, the scheme proves that with financial support and social counselling (in other names "supported housing" or "housing plus" solutions) the inclusion of private rentals in social housing provision is a viable option even for the most vulnerable groups. The potential of using private rentals in supported housing programs have been proven by a municipal non-profit organisation providing homeless services in the city of Szombathely: the service provider has been successfully using this model for over a decade, establishing a long-term relation with some of the landlords.

A4. State integrated owner-occupied – new construction

A4.1 Supporting access to homeownership

As it is often emphasized, the housing policies of former socialist countries focus on supporting the owner occupied sector. State support to homeownership of families with children has a long history in **Hungary** as well, which dates back to the 1980s. The current – so called **Family Home Construction Program**, which have been amended several times - scheme was developed in 2012 after the recovery from GFC had started. The scheme provides non-refundable grant to families with children, but it is restricted to those only who have income derived from employment. The grant is higher for newly constructed dwellings, and especially high in case of 3 or more children (10 million HUF/ 32,000 Euro). The scheme ensures that the families have to make their own contribution, but the initial conditions aiming to target the subsidy for more moderated middle class were abolished in 2016, which means that there are no upper limits in terms of value and size of the constructed or purchased housing any more, and the requirement of not having own housing was also abolished. Additionally to the grant, subsidized mortgage loans were reintroduced as well. With such measures and conditions the government clearly supports the middle and even upper class families, excluding the low income households with uncertain labor market situation from the supported schemes. The total budgeted amount to the Family Home Construction program in 2017 was 100 billion HUF, although there is no information that in reality how much could be used as the level of housing construction is still quite low in Hungary.

The scheme is highly criticized by experts arguing that it devotes the scarce budget resources to a scheme which highly subsidize the more well-off groups of the society while the government has not developed any targeted measures to improve the housing situation of the poor.

A5. State integrated owner-occupied – renovation of existing housing units

A5.1 Slovakia: state support for renovation and modernization

The Slovak Republic's State Housing Development Fund (SHDF) was established in 1996, with the general aim of improving the quality of the Slovak housing stock. The Fund was initially fully state financed with the aim of becoming self-sustaining over time, although to this day it is still state funded to a large extent besides its own sources.

SHDF provides favorable long-term loans (up to 100% of acquisition costs with maturity up to 40 years and differentiated interest rate, 0 to 3 percent) for various housing purposes. According to the Act No. 150/2013 Coll. loans are provided for these purposes:

1. Acquisition of a dwelling (construction or purchase of a dwelling - individuals)
2. Acquisition of a rental dwelling (construction or purchase of a rental dwelling – municipalities, in case of Bratislava and Košice also a city districts, self-governing region, non-for-profit organization as defined in the Act. No. 443/2010 Coll. and from 2014 also other legal entity[17])
3. Renewal of residential building (owners)
    a. Modernization of residential building
    b. Removal of systemic faults
    c. Insulation of residential building
4. Construction of social service facility (municipalities, in case of Bratislava and Košice also a city districts, self-governing region)
5. Renewal of social service facility (municipalities, in case of Bratislava and Košice also a city districts, self-governing region).

The number of dwellings and contracts, and the allocated total subsidy amount for each scheme in 2016, is presented in Table 25.

Table 25. Slovakia: overview of SHDF support according to individual purposes in 2016

Purpose	Number of contracts	Amount of support (EUR)	Number of dwellings	
			acquisition	renewal
Acquisition of a dwelling – individuals	49	2,451,140.00	49	-

[17] The state is also trying to stimulate the interest of investors in building traditional rental housing. The first step was enabling legal entities to get a soft long-term loan from SHDF. The only limitation is that it must be a legal person who is on the market for at least five years and has no debts. They have the same conditions as municipalities, even a little less strictly in terms of tenants. The income ceiling is slightly higher than in the case of social housing and the rent may be reasonably higher. This should be interesting mainly for private investors in cities, where is more significant gap of affordable housing.

Acquisition of a rental dwelling – legal entity	0	0.00	0	-
Acquisition of a rental dwelling – co-financing with subsidy - municipality	80	30,917,900.00	1,128	-
Renewal of residential building	184	45,472,587.39	-	9,221
Renewal of residential building - EU funds	702	148,561,862.61	-	31,929
Construction of social service facility	0	0.00	-	-
Renewal of social service facility	0	0.00	-	-
Total	**1015**	**227,403,490.00**	**1,177**	**41,150**

The initial reason to launch the SHDF was to provide preferential loans to natural persons or legal entities for unfinished construction, new housing construction, and the refurbishment of existing dwellings. There was no ceiling for acquisition costs, dwelling sizes etc. Over the time, in line with housing policy priorities, purposes were refines. One of the main reasons for the establishment of the fund was to support and motivate "new" owners to take responsibility for their private property, and maintain and refurbish their dwellings. It is area where SHDF has been providing the largest share of its budget; and since 2013 it also became a financing institution for financial engineering instruments under a special regulation (JESSICA). Its most recent focus was to promote comprehensive refurbishment of residential buildings (going beyond the building envelope).

A5.2 Supporting the refurbishment of privately owned multi-unit buildings

The deterioration of the existing housing stock is considered a huge problem in the former socialist countries, primarily because no resources were dedicated to the stock renewal in the socialist era. The privatization of the large state housing stock put a financial burden on the new owners which they often were not able to finance. Therefore in several countries schemes have been developed to support homeowners to refurbish the residential multi-unit buildings. Some of the schemes were heavily subsidized, which meant another significant financial support to home owners; it was not targeted according to social background, and in many cases the increased value of the dwellings could be capitalized by the private owners.

In Hungary examples to the highly subsidized schemes also exist. The so called "panel program" – which operated on larger scale between 2000 and-2008, and targeted the prefabricated housing stock – supported the one-third of the investment costs by centrally funded non-refundable grant, to which municipalities had to contribute with another one-third in forms of grant or interest rate free loan scheme. This meant that households had to pay only the third of the investment costs. To do so households could apply for several types of subsidized loans. The scheme was not targeted for housing estates in worse condition and with poorer owners, instead, the available subsidies could be used by the more well-off condominiums and housing cooperatives.

A more targeted scheme was the EU funded program called socially sensitive rehabilitation which aimed at the complex renewal of deprived residential areas, among them housing estates. The program financed the refurbishment of privately owned condominiums as well with very high level of subsidy spreading from 80 to 100 percent of the investment costs (together with the municipality contribution).

Latvia also has to tackle the poor condition of its system built housing stock: 70% of its apartment blocks were built 50 or more years ago, and their low energy efficiency leads not only to unsatisfactory living conditions, but also to high utility costs to residents, often amounting to half of their monthly disposable income (Eurofound 2016). Heating bills in old apartment blocks could easily be three times higher than in newly constructed multi-unit buildings. About 85% of dwellings are owner occupied; complex refurbishment therefore requires coordinating numerous – sometimes up to 70 – individual owners with varying attitudes and financial possibilities. Subsidized deep renovation programs were therefore launched, addressing building quality in a holistic manner, including the insulation of external surfaces, doors and windows, roofs, basements, heating systems, as well as the aesthetic aspects of buildings. The source of funding for the holistic interventions was a combination of owners' contributions; public funds including EU Structural Funds and innovation funds, international banks' financing products, such EIB and the Nodinc Investment Bank (NIB); as well as commercial bank loans and other private investment funds (EC 2014).[18] The project, implemented by the energy service company Sun Energy program, follows the ESCO model: energy cost savings are used after the renovation process to pay back the loans used to finance the intervention, or are reinvested for capital upgrades of buildings.

Energy bills, as a result of the renovations, fell from around EUR 170 to EUR 90 per month. Monthly payments, however, stay the same, as the savings are used for loan repayments – direct affordability benefits are thus not directly apparent to homeowners. Nonetheless, a study prepared by the Riga Technical University found a signiifcant drop in patient visits related to respiratory issues; and a general improved general comfort and well-being of residents was also confirmed (Eurofound 2016:81).

A6. Housing policy initiatives. The governance of housing

A5.1 Czech Republic: the debate on social housing policy

In 1991, homeownership rate was only 38 percent of the housing stock in the Czech Republic, co-operative housing formed 19 percent; and public rental accounted for 39 percent; private renting was almost non-existent. By 2011, homeownership was at 56 percent, co-operative housing formed 9 percent of the stock, public rental only 8 percent, and was still decreasing; and private rental rose to 14 percent. The number of households at risk of homelessness and social exclusion had been on the rise for a long time, and the public sector provided no effective solution to address their problem. While the relatively generous housing allowance system (see box X) improved the affordability of market renting for low income households, it remained unsuccessful in solving the problem of marginalized groups due to the risk aversion of private landlords, and resulted in the mushrooming of overcrowded, substandard lodging houses ('hostels'), where speculators charge above-market rents thanks to the generous allowance scheme.

2015 seemed to be a turning point in this, when the social democrat led government passed new Social Housing Strategy for 2015-2020, and began to prepare a new social housing law, assumed to come into force in 2017, later moved to 2018. The proposed law was not passed by the Parliament, however, and the parliamentary elections of October 2017 may weaken the social democratic majority behind

[18] European Commission 2014. Long-Term Strategy for Building Renovation https://ec.europa.eu/energy/sites/ener/files/documents/2014_article4_en_latvia.pdf

this initiative; currently it is on the agenda of the Ministry for Labor and Social Care, which continues to develop pilot schemes and organize workshops on the matter of improving social housing.

There are different interpretations on why the law was failed to pass. Social democrats and civil society organization accuse the political opposition or other coalition members of insufficient support. However, from the passing of the strategy and the proposed law was problematic, often due to proponents' strong ideological footings:

(1) activist movements pressured politicians on simplified ideological grounds to pass the law, despite several problematic and unsustainable procedures;
(2) the medicalization of distorted information concerning the functioning of social housing systems in the West; and
(3) limited public discussion during the preparation of policy documents, where those who expressed diverging views to the proposal were often cut off from the discussion.

The doubts expressed by many crucial actors, such as the Union of Cities and Towns (the major advocacy umbrella organization of municipalities), the Ministry of Finance, the Chamber of Commerce, the Union of Private Landlords, research organizations, and several NGOs working in the field of housing provision to poor households, were addressed only formally. Instead, the Minister for Labor and Social Affairs together with representatives of activist groups for housing rights often accused opponents of refusing to help the poor. Under such conditions, the rational and constructive discussion had a very limited place. Such limited policy debate, especially due to ideological reasons, often leads to policy failures; and this may have been a crucial reason for the failure of the proposed social housing law before the Parliament.

The institutional allocation of responsibilities has also become muddied in the process. The Ministry for Labor and Social Affairs retains the main responsibility for preparing the strategy and the new law; while the Ministry for Regional Development, responsible for housing policy in general, was assigned joint responsibility by the government. Opinions on some central parts of the strategy differed between two ministries, and the Ministry for Labor and Social Affairs ignored suggestions made by the other ministry for a long period. By the time these were considered in the revised version of the law, it was too late for the act to be properly finalized.

According to the first proposal of the law presented in December 2016, households spending more than 40 percent of their income on housing expenditures (before housing benefit, but expenditures are capped by normative costs) and households defined as homeless should have been eligible for contract in social rental housing. The eligible households were supposed to have a legal right for social housing and their eligibility was to be surveyed and confirmed by central and not local administration (i.e. not by municipalities). However, responsibility for securing social dwellings for households who get "confirmation" from central administration should have been on local governments (with sanctions if the requirements are not met). The municipalities could secure housing in their own public housing stock or they might introduce innovative schemes in cooperation with non-for-profit organizations, private developers and private landlords. Most or whole funding needed for social dwelling acquisition (construction, purchase) should have come from the state budget. Rent should have been equal to cost rent – after deduction of state subsidies.

The centralization of eligibility check (in fact, social housing allocation), the overly wide definition of target group and unclear and insufficient funding (leading to the risk of cuts in the housing benefit scheme and thus substitution of housing allowances by supply-side subsidies) created justified doubts about sustainability and equity of scheme.

The centralization of survey of eligibility status is a rational reaction to discrimination of vulnerable households on the free rental market and the risk-averse behavior of small municipalities, but only if it is indeed limited to the households that are actually facing problems with access to proper housing – i.e. the most vulnerable households, such as unemployed, homeless, people living in shelters, asylum housing, overcrowded or low-quality housing. There is no reason for to centralize social housing allocation among less vulnerable households, such as lower-income young or elderly, as municipalities are prepared, after having a state budget support, to secure and allocate public housing to them voluntarily. It is highly probable, that the municipalities would be willing to co-finance social housing projects for the less vulnerable households by themselves and that they will manage the housing allocation more efficiently than the state (as they know housing conditions of their citizens better than the state office). On the other hand, if the law gives the legal right for social housing to such a wide spectrum of households while centralizing allocation and financing to the state level, it will very likely lead to lack of state funds, housing scarcity (taking into account recent low share of public housing due to its previous privatization), long waiting lists and phenomena well-known from centralized socialist regime, such as strategic behavior, corruption, black market, and clientelism.

The Ministry for Labor and Social Affairs estimated the number of eligible households due to low housing affordability (housing cost burden exceeding 40 percent of household income) in the Social Housing Strategy of CR 2015-2020 at approximately 300,000 households in 2013, i.e. more than one third of households living in rental housing and about 7 percent of all Czech households. This estimate was based on EU-SILC survey that does not cover people living in shelters, asylum and lodging houses and homeless in general – the number of homeless was estimated in another governmental strategy on homelessness passed earlier to about 150,000 households (30,000 rough sleepers and about 100,000 living in shelters, mostly individuals). As eligibility in the proposed law is mainly based on cost-to-income ratio, one can assume that some other households may start to behave strategically to be also eligible for social dwelling and therefore between 500,000 and 600,000 households can finally suddenly appear on social housing waiting lists. This may cause very long waiting period for allocation of social dwelling, taking into account recent housing context of the Czech Republic.

Due to long waiting period, there was a real danger that dwellings will be mainly allocated to those who are not in acute housing need. Centralization of social housing allocation together with eligibility spread among very wide target group clearly resembles nostalgia for socialist housing policy. Setting aside the fact that this regime already showed its major drawbacks, such an approach ignores recent housing context based on dominantly private housing provision and insufficient share of public housing due to its previous large-scale privatization.

Later, revised versions of the social housing law proposal excluded potential sanctions to municipalities and, partially, limited also the scope of target group. However, it was too late for the law proposal to be really finalized and consistent, and it lost even the support from those who prepared it.

The pendulum of social housing policy in post-socialist economies is still vibrating from one extreme to another and even 26 years after changes of the regime did not find its long-term equilibrium. At the beginning of transition, most public housing was sold out to sitting tenants for giveaway prices and the free market, together with housing benefits, was supposed to solve problems of housing needs of vulnerable households. However, we found that (1) giveaway privatization of public housing does not stop even if you exclude its original cause (rent regulation) and despite the sharp rise in homelessness and number of households endangered by social exclusion; (2) the generous benefit system in itself does not guarantee that vulnerable households find a proper housing solution on the market; (3) and large decentralization of power may force municipalities to behave "antisocially" towards the most vulnerable groups of households.

Notes: Data source of the indicators

I1 https://www.reinisfischer.com/gdp-capita-european-union-2013

I2 https://www.reinisfischer.com/average-salary-european-union-2015

I3 Anna Zabsodzka: Income Inequlity Rises in Europe Mody's Analityc, 2015; https://www.economy.com/getlocal?q=ac4a6beb-cb85-4826-8418-b31435db858d&app=eccafile

I4 Schneider, F. (2012), "Size and development of the Shadow Economy from 2003 to 2012: some new facts"

I5 Williams, Colin C. "Evaluating the Extent and Nature of 'Envelope Wages' in the European Union: A Geographical Analysis." European Spatial Research and Policy 16, no. 1 (2009): 115–29.

I6 http://www.transparency.org/cpi2015#results-table

I7-9 https://en.wikipedia.org/wiki/Demographics_of_Europe#Population_by_country

I10-11 Eurostat (online data codes: migr_pop1ctz and migr_pop3ctb), Note: Provisional data: IE, FR and PL., European Commission (2015), Short Analytical Web Note 3/2015, Demography Report

I12 Eurostat (online data code: migr_pop3ctb)

I13-15 European Commission (2015), Short Analytical Web Note 3/2015, Demography ReportSource: Eurostat (online data code: demo_gind)

I16 http://www.indexmundi.com/factbook/fields/life-expectancy-at-birth

I17 Civic Consulting based on Eurostat, SILCdata (code: ilc_mdes09).This question asks: "A household may have different sources of income and more than one household member may contribute to it.Thinking of your household's total income, is your household able to make ends meet namely, to pay for its usual necessary expenses?" The percentage of respondents answering "with difficulty" or "with great difficulty" are provided here

I18 World Bank GINI index, accessed on January 21, 2016.

I19-20 numbeo.com

I21 European Mortgage Federation National Experts, National Statistics Offices, US Bureau of Census

I22 http://appsso.eurostat.ec.europa.eu/nui/setupDownloads.do

I23 European Mortgage Federation National Experts, National Statistics Offices, US Bureau of Census, Hypostatat, 2015

I24-25 Hypostat

I26 Housing Europe Review 2012

I27 SILC [ilc_lvho02]

I28 SILC [ilc_lvho03]

I29 [ilc_hcmh01]

I30 Europe's buildings under the microscope, BPIE

I31 http://bpie.eu/publication/europes-buildings-under-the-microscope/

I32 SILC [ilc_lvho05a]
I33 SILC ilc_hcmp03]
I34 SILC [ilc_mdho06q]
I35 SILC [ilc_mdho06q]
I36 SILC [ilc_mded01] – total
I37 SILC [ilc_mded01]
I38 SILC [ilc_lvho07a]
I39 SILC [ilc_lvho07b]
I40 Civic Consulting based on Eurostat, SILC [ilc_mdes05]

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