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Martin Lux
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SOCIAL HOUSING IN THE CZECH REPUBLIC, POLAND AND SLOVAKIA

Martin Lux

ABSTRACT
This article provides a comparative description of the development of the social housing sector in three transitional countries during the 1990s. Several features of social housing in the EU countries are mentioned to establish the indicators used as the methodological base for a critical evaluation of the development of social housing in the Czech Republic, Poland and Slovakia. The indicators mainly reflect the targeting of supply- and demand-side housing subsidies, and the existence or quality of new legislation governing the operation of social housing in these countries. A brief description of housing reforms, changes in tenure structure and the social consequences of slow process of the transformation of rental housing is added. Though many problems remain unsolved the situation in Poland seems to be the most promising of the three countries studied because the new legislation allows for new social housing construction, and old housing policy measures were adopted to be targeted at households in real social need. In contrast, the low standard of ‘social housing’ legislation and the maintenance of non-targeted rent regulation in the Czech Republic and Slovakia do not improve housing affordability for lower income households.

KEYWORDS
Housing policy, transition economies, Czech Republic, Poland, Slovakia

1. INTRODUCTION
The reform of housing policy and legislation for rental housing was not a priority in the reform of political and economic institutions in most of the transition countries. On the contrary, rental housing seems to have gained the status of ‘compensation’ for the reduction of living standards resulting from extensive privatization of former state enterprises, increasing unemployment, price liberalization, and the opening of markets to foreign trade. In all three transforming countries studied here (Poland, the Czech Republic and Slovakia), the politicians (in Poland local politicians) decided to maintain the non-targeted rent regulation in the overwhelming majority of rental flats (even restituted private rental flats) as well as to maintain the
large legislative protection of tenants inherited from the period of communism. By cutting subsidies and deregulating construction prices the state opened the door for private investment in rental housing construction but rent and legislative regulation soon shut it out again. The consequences of these ‘careful’ housing policies soon became apparent: a rapid increase in real estate prices; a sharp decrease in rental housing construction; a growing number of young people living in ‘involuntary cohabitation’ with parents; and growing demand for affordable rental housing among middle and lower income households.

In European Union member states the housing affordability problems of lower income households are solved through supply- and demand-side public subsidies. Supply-side subsidies (also called bricks-and-mortar subsidies) are mostly used to promote social rental housing, while the demand-side subsidies take the form of housing allowances. The social housing sector is usually non-profit or publicly owned. It is designed mainly for middle and lower income households who cannot afford housing in the free market. Following the general understanding of ‘social housing’ in the EU countries, we will further define social housing as that part of rental housing stock whose construction was ‘significantly’ supported by the government through subsidies, cost-sharing, tax deductions and other legal advantages. We will not follow the narrow definition of social housing sometimes used in the Central and Eastern European (CEE) countries (e.g. Poland) that only classifies the sector of rental housing designated for the lowest income households with the greatest social needs (primarily the unemployed and ethnic minorities) as social housing. Neither will we follow the wide definition of social housing according to which social housing is any part of the total housing stock (including the ownership sector) constructed with the assistance of public budgets.

We can find the sector of social rental housing in almost every country of the European Union. It varies from 1 per cent of the stock in Spain up to 36 per cent in the Netherlands. The construction of social housing in the EU countries is financed either by grants from the state or municipal budgets or through interest subsidies and guarantees that lower the cost of funds acquired on the open capital market. Construction is thus financed by various combinations of private capital and subsidized credits. Where private investors are permitted to provide social housing, notably in Germany, they are usually allowed a certain rate of return for holding rents below market levels and accepting nominated tenants. Social landlords must fulfil explicit provisions concerning the social housing operation when using the grant or preferential loan from public budgets. These provisions concern mainly the allocation system and the system of rent setting.

With the exception of Sweden, the allocation of social flats always depends on the fulfilment of certain social criteria. In many countries a national law sets explicit income ceilings for access to the social rental
sector (e.g. France) or it simply specifies target social groups (e.g. Great Britain). The Swedish concept of social housing, where there is neither income testing nor other examination of social needs (about 20 per cent of the Swedish housing fund), has recently been undergoing a profound reform. Household income may be monitored once a tenancy has commenced. Non-profit organizations (HLM) providing social housing in France are obliged to increase the rents of those households whose total incomes exceed the income ceiling (set by national law) by 40 per cent. Gradual rent increases are part of the German policy of ‘transferring’ social housing to the private sector once subsidized loans have been repaid. Social housing operators in Belgium and Luxembourg can use a supplementary rent charge for higher income households, if such possibilities are included in the rental contract. The allocation of social rental housing is therefore a subject of social targeting in most EU countries.

The rents in the social housing stock of the EU countries are regulated by special laws. They are mostly calculated on the assumption of non-profit construction and management. Although the maintenance of the social housing stock was often subsidized early on (and this kind of subsidy continues in some cases up to the present), in general the rent covers all costs connected with housing (the so-called ‘cost rent’): operation, maintenance, administration, repairs and, more importantly, also construction loan repayments. In Belgium the model of income-related rent is used.

There are many types of social housing operators: state, municipalities, housing cooperatives, non-profit housing associations and private investors. Wide-ranging housing reforms introduced in the 1980s and 1990s in almost all countries of the EU increased reliance on private capital to finance social rental housing construction and regeneration. The role of public budgets (not only in the sphere of financing) decreased and a greater role for independent social housing operators was created in the UK, Ireland and the Netherlands.

This article focuses on the description of rental housing in the ownership of state, municipalities, housing cooperatives and housing associations (potential social housing landlords) in the Czech Republic, Slovakia and Poland. Following the ‘general’ rules applied in the social housing sector in the European Union that were briefly outlined above we will analyse these potential social housing landlords by using the following indicators:

- Are there explicit legal rules in place which govern the qualification for use of public funds for their rental housing construction (targeted supply-side subsidies)? Are there explicit ceilings on construction costs and the size of new dwellings?
- Are there explicit legal rules on allocation of dwellings, such as income ceilings or target groups?
- Are there explicit legal rules in place to specify the rent setting that must
be followed by them? Are these rules limited to the sector of social rental housing? Is the regulated rent sufficiently high to cover the costs of housing (the ‘cost rent’)?

- Are these legal rules applied in reality itself? Overall, does the system of supply-side subsidies really help those who need help?

The state or the municipality can also help lower income households to reduce their housing costs through targeted housing allowances (demand-side subsidies). We will therefore also provide a brief description of the current design of housing allowances in these countries and we will try to answer following questions: Does the design of housing allowances correspond to EU continental models? As in the case of social housing, does the housing allowance really effectively help those who need it?

2. THE CZECH REPUBLIC

Under the Communist regime, housing was subject to tight state control. With the exception of family houses, the entire privately owned housing stock was nationalized. Subsequently the creation of new housing cooperatives was allowed. All rents were controlled by the state. As a result of extensive housing construction financed from the state budget, the share of state rental flats in the total housing stock grew rapidly. Four types of housing were dominant: state rental flats, rental flats owned by state enterprises, cooperative rental flats and privately owned family houses. Tenants of both state and enterprise flats had neither ownership rights nor duties, but they had a ‘decree’ claiming their right to stay at the flat for an ‘unlimited time’ and, moreover, they had an automatic right to transfer the ‘decree rights’ to their children.

Cooperative housing was based on the ideal of ‘collective investment’ by cooperative members. Each citizen could become a member of one of the cooperatives by paying a membership fee. Although the construction of cooperative houses was partially subsidized by the state, residents had to cover a substantial part of the construction costs themselves (in some cases by cash payments, in other cases by unpaid work during the construction of the house). The flats were owned by cooperatives, and the members of the cooperative did not have any disposal rights to their cooperative flats. (For example they could not ‘sell’ them on the open market.) Owner-occupied family houses represented the last legal form on the housing market under communism.

We now summarize the most important changes of the Czech rental housing sector between 1990 and 2000. According to Terplan’s estimate (Andrle and Dupal 1999), from 1991 to 1999 the number of households in ‘involuntary cohabitation’ has increased from 170,000 to between 280,000 and 300,000 households (representing currently 7 to 7.5 per cent of all
Czech households according to data from the 1991 census). Prices of privately owned flats and family houses have grown geometrically since 1990, and up to 1996 the annual rise in house prices was above the general inflation rate. On the other hand, housing construction decreased sharply immediately after 1990. Before 1990 between 50,000 and 60,000 dwellings were started each year. In 1991 this declined to only 10,899 and in 1993 to 7,574. There has been a steady growth in housing construction since 1993 (10,964 dwellings in 1994 rising to 33,255 units in 1998), but this construction was made up mainly of construction of family houses and ownership flats. The share of rental flats in total housing starts was only 8.7 per cent in 1998.

Many state-owned blocks of flats have been returned to their previous owners or their descendants by restitution laws. However, the government decided to maintain the system of state regulation of rents in restituted houses. The majority of state flats were transferred from state to municipal ownership in 1991. Enterprise-owned housing practically ceased to exist as virtually all enterprise flats were sold to private owners at the same time as the enterprises were themselves privatized. Table 1 indicates the tenure structure of dwelling units in 1991 (last census). By our estimation, the share of municipal flats has decreased to 19 per cent of the total housing stock and the share of owner-occupied housing rose to 48 per cent of the total housing stock mainly due to the privatization of municipal flats that started in 1994.

The law on the transformation of cooperative housing has changed the status of housing cooperatives. The main goal of the Transformation Act was the privatization of cooperative housing stock into the hands of cooperative members who lived in the cooperative flats. Members of the cooperatives obtained the right ‘to sell’ their share in the cooperative with

Table 1 Housing tenure in the Czech Republic (1991)

<table>
<thead>
<tr>
<th>Type of housing</th>
<th>Number of units (thousands)</th>
<th>Per cent of total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Owner-occupied</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In family houses</td>
<td>1,509</td>
<td>40</td>
</tr>
<tr>
<td>In other buildings</td>
<td>42</td>
<td>2</td>
</tr>
<tr>
<td><strong>Rental units</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cooperatives</td>
<td>717</td>
<td>19</td>
</tr>
<tr>
<td>Municipal and state buildings</td>
<td>1,003</td>
<td>27</td>
</tr>
<tr>
<td>In single family houses</td>
<td>66</td>
<td>2</td>
</tr>
<tr>
<td>In private buildings</td>
<td>289</td>
<td>8</td>
</tr>
<tr>
<td>Other rental units</td>
<td>38</td>
<td>1</td>
</tr>
<tr>
<td><strong>Other legal reason</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>3,706</td>
<td>100</td>
</tr>
</tbody>
</table>

the right to occupy the cooperative flat on the open market. Moreover, up to 1995, cooperative members were able to apply for the transfer of their cooperative flats into private ownership and the overwhelming majority of cooperative members took advantage of this. Consequently, the cooperatives became more or less a part of the home ownership sector and can no longer be classified as social housing.

The government decided to maintain the system of state regulated rents, not only in municipal flats but also in restituted buildings. In 1993 market rents were permitted if the tenant was not a citizen of the Czech Republic, if the flat had been vacant before the tenancy began or if the dwelling was a privately owned family house. The market rental sector made up only about 5 per cent of the total rental stock in 1999. Regulated rent for the average rented flat rose from 170 CZK in 1990 to 1,021 CZK in 1998 (approximately an increase of 600 per cent in nominal terms and 66 per cent in real terms), but it was still only one-seventh of the market rent in 1998. In 1998 rents made up only 5.5 per cent of total net household income and only 32.1 per cent of all housing expenditures of the average Czech household (Family Budget Survey 1998). The ‘possession of decree’ on a rent-regulated flat has remained transferable to family members, exchangeable with some other ‘owners of the decree’ and tradable on the black market. Though public budgets continue to subsidize the operation of municipal rental stock to a certain extent (the reconstruction of prefabricated houses), there are no explicit rules for allocating vacant or new municipal flats that would restrict the municipalities’ choice of tenants. The rent-setting mechanism based on the overall non-targeted rent regulation does not reflect the different costs of operation in different localities throughout the state. Moreover, the level of regulated rent is still below the level of the average economic rent (i.e. it is not high enough to cover the reconstruction costs).

Regulated rents are not well-targeted with respect to household income and type of rental housing (even private rental flats are regulated). Based on data from ISSP 99, it is possible to prove that the type of housing that the household lives in is completely independent of total household income in the Czech Republic. This applies both to samples that include incomes of households living in family houses and to samples that include only households living in flats. In other words the share of rich and poor households is comparable in different tenures (i.e. owner-occupied, cooperative, private rental and municipal rental). Regression analysis of the regional differences in market housing prices using the 1996–97 data set allows us to compute the difference between the market and controlled rent for an average household (i.e. the average ‘hidden subsidy’ to tenants living in municipal flats): it reached 6,052 CZK in 1996 (half of an average month’s salary). The index of undervaluation indicates the ‘hidden subsidy’ as a percentage of the controlled rent. By comparing the indices
we clearly see (Figure 1) that undervaluation of a flat increases with the size of residence (with the exception of cities with 20,000 to 100,000 inhabitants) and the size of the flat.

For higher income households (households in the two highest quintiles) the index of undervaluation had a value of 11.41 while for lower income households (remaining three quintiles) it was only 11.13 (the average is 11.24). These data mean that higher income households profited more from rent regulation in municipal flats than lower income households in 1996. They were also over-represented in this sector, because they were not motivated to move into owner-occupation due to the low level of controlled rents. The non-existence of a transparently defined social sector of housing and the *de facto* ‘non-social’ status of municipal flats have serious consequences for non-residing households. The allocation of vacant municipal flats is very sporadic (partly because tenants try to ‘keep’ their flats even if they do not actually use them) and it usually occurs only in completely unavoidable cases.

The reform of rent policy is scheduled to take place in 2002. Rents should be freely negotiated between the landlord and tenant with restrictions on the maximum level of the rise of the rent in one year. Negotiated rents also cannot exceed rents for the same kind of flat in the same location. Variations of this model are used quite successfully in Germany, France and other European countries. The problem arises from the fact that rents in

![Figure 1](image-url)

*Figure 1* The index of rent undervaluation of flats in the municipal housing sector

the municipal housing stock will also be subject to a new model of rent setting (Ministry for Regional Development proposal). One cannot expect that municipalities will raise rents too much (certainly not to the market level), even if this were to be permitted since this would probably result in political suicide for local politicians. If a private landlord wishes to raise the rent in his flats he will not be able to do so as the new rents cannot exceed the average rent for the same kind of flat in its neighbourhood, including the municipal quasi-regulated housing stock, which is and will be dominant in all regions of the country. The decision of the government not to turn the municipal flats into social housing with new regulations on allocation and rent setting based on the non-profit principle will lead to increasing social tensions in the housing market in the future.

A small number of new rental flats were built by municipalities as a result of non-targeted subsidies from the state budget. The state supports new rental construction by municipalities with a subsidy of 320,000 CZK for each new flat (about one-fifth of the construction costs). However, there are no limitations concerning the maximum cost level per square metre, the maximum area of the dwelling, the income limits used for their allocation, or the maximum rent price. In fact, quite large and comfortable dwellings are sometimes constructed (especially in Prague) that ultimately do not serve as rental flats. They have the character of cooperative or even quasi-ownership dwellings, as new occupants are obliged to pay a large down-payment when the flat is allocated. The allocation is not subject to means testing and, in reality, only higher income households can afford to ‘buy’ this rental flat.

In May 2000, a law setting up a State Fund for Housing Development was adopted by the Czech Parliament. The fund should cover part of the housing construction or reconstruction costs by providing grants and preferential loans. Both firms and individuals will be able to apply for financial support. Even though the aim of the fund is to support new rental housing construction, its activities are not limited to a specific housing sector. The extent of the subsidy is not indicated in the law either: it only specifies that subsidies will be partial. There are no further conditions to be fulfilled by applicants to obtain subsidies or qualified loans for the reconstruction or construction of the flats and houses. Moreover, no further regulations in the form of national laws are being prepared to narrow the general and very open activities of the fund. As a result, the fund will simply become an instrument in the hands of different governments with different housing policies largely dependent on the state budget. The lack of a clear conception of rental housing reform led to the creation of a fund that has no duties and no precisely stated goal. Its financial resources can be granted to anyone and can cover, theoretically, 99 per cent of the future investment in the form of grant for the construction of owner-occupied housing.

The law on new housing associations is in the early stages of preparation.
Housing associations’ activity and financing would be based on the financial participation of individual members of the association. This means that the legal form of new housing associations would be very close to the cooperative form and future tenants will become cooperative members as well. The value of their member share will not appreciate over time and they will not be able ‘to sell’ their cooperative share with the right of occupancy (in contrast with the situation in current housing cooperatives). The housing associations would operate on a non-profit basis. The municipality or other legal person (five at least) could also become shareholders. Rents will be regulated and the construction costs will be partially covered by a grant from the State Fund for Housing Development. As the proposal is in the initial stage of preparation there is no further precise information, e.g. conditions to be fulfilled to obtain the subsidy or qualified loan, the size of the flat and normative costs per square metre, details on rent setting and subsequent rent increases. The allocation of new ‘rental’ flats will not be limited by means testing and will not be legally restricted to middle and lower income households. We can expect that there will be pressure from housing association tenants to change the law to give them greater legal ownership rights very soon (as was the case in Norway and Sweden).

The current housing allowance system fails to meet its social objective and does not correspond to the models used in the EU. Owner-occupiers and tenants are qualified for the housing allowance if their incomes fall below 160 per cent of a minimum subsistence income in the last quarter of a calendar year. Housing allowances are subject to a quarterly income test. This allowance is allocated with no regard to real housing costs. As a result, the housing allowance is more a part of a poverty relief programme than an effective instrument of housing policy. Only about 5 per cent of Czech households received the ‘housing allowance’ in 1998.

3. POLAND

With the exception of a large stock of owner-occupied rural houses, the housing situation in Poland in 1994 was very similar to the situation in the Czech Republic. The private housing stock, mostly situated in rural areas, constituted 43.5 per cent of the total housing stock, cooperative housing 27.7 per cent, state (later municipal) housing 17.8 per cent and enterprise housing 11 per cent. With the exception of private housing, ‘all other three types of tenures belonged practically to the public sector, because cooperatives benefited from financial subsidies from the state . . . and the dwellings owned by enterprises were built by state-owned enterprises’ (Bonczak-Kucharczyk 1999: 35).

As in other CEE countries, the state housing stock was transferred to the hands of local governments, gminas. The share of the enterprise housing stock decreased due to the privatization of state enterprises from 11 per cent
of the total housing stock in 1990 to 5.8 per cent in 1998 (Table 2). The sale of the gmina housing stock to tenants accelerated in the 1990s (privatization started in the 1980s). Flats can be bought by tenants at very low prices. From 1995 new rules concerning the privatization of flats were introduced, but the changes were, in comparison with the privatization rules in Hungary or Slovenia, only ‘cosmetic’. The chaotic process of privatization had, and still has, the same characteristics as in the Czech Republic: no state regulation or co-ordination, no deadlines, no precisely indicated rights of tenants or duties of gminas. In contrast to the Czech Republic, a private rental sector did exist under communism, but it was subject to tight state control. In spite of the change of political system, the powers of private landlords and tenants did not change and rents continued to be controlled by the state.

As is the case for the Czech Republic there are no explicit legal provisions on allocation of gmina flats. In 1993, the ‘communal tenement houses, theoretically for the poorest families, were inhabited by people with higher average incomes than those in cooperative houses’ (Bonczak-Kucharczyk 1999: 55). This situation changed recently (Kulesza 2000), but housing expenditure-to-income ratio was still higher for households living in ‘rental cooperative’ flats than for households living in gminas and other rental flats.

The cooperative flats were not transferred to the full ownership of cooperative members as in the Czech Republic. In contrast to the Czech Republic, the housing construction of cooperatives continued in the 1990s (constituting 39.6 per cent of all housing starts in 1996). The legislation concerning cooperatives did not change significantly from the 1980s, but it was quite different from the uniform Czech legislation. Based on the Cooperative Law of 1982, apartments in housing cooperatives could have, and still have, two possible statutory forms: ‘ownership cooperative’ flat or ‘rental cooperative’ flat. The households living in an ‘ownership cooperative’ flat have ‘limited’ proprietary rights to their apartments. The proprietary right may be sold and the cooperative is obliged to accept the new member. Households living in ‘rental cooperative’ flats have the same rights as those living in the normal rental sector: their flats cannot be

| Table 2 Housing tenure in Poland (per cent) |
|------|------|------|------|------|
| Housing co-operatives | 27.7 | 27.7 | 27.7 | 28.1 | 28.5 |
| – ‘ownership co-operatives’ | 14.2 | 14.9 | 15.5 | 16.6 | 17.5 |
| Gminas housing | 17.8 | 15.1 | 14.6 | 14.0 | 13.3 |
| Enterprise housing | 11.0 | 8.9 | 7.9 | 7.1 | 5.8 |
| Private housing | 43.5 | 47.8 | 49.7 | 50.8 | 52.4 |

inherited or sold. The ‘ownership cooperative’ share must cover the full costs of construction, whereas the ‘rental cooperative’ share is computed as the difference between construction costs and the state contribution. Under the law of 1982 households living in ‘rental cooperative’ flats can obtain the ‘ownership cooperative’ rights only if they pay off the balance of the construction costs. This right of transfer may be used only by households living in old cooperative housing stock (see below). The share of ‘ownership cooperative’ flats in the total cooperative housing stock rose from 42.9 per cent to 61.4 per cent between 1994 and 1998 because of transfers and because new construction was dominated by ‘ownership cooperative’ flats. The 1995 Act on Selected Forms of Support of Housing Construction re-established the possibility of ‘rental cooperative’ housing construction by granting preferential credits covering up to 70 per cent of the construction costs. There are no income limits for becoming a member of such a cooperative. However, the transfer from ‘rental’ to ‘ownership’ statutory form is forbidden in that case.

In 1994 a complete reform of rental housing took place that represented a significant step towards European Union standards. In fact, the state significantly reduced rent regulation, although certain limitations on rents in the publicly owned stock remained in place. From 1994, gminas have been able to set their own rents up to a maximum of 3 per cent of the unit’s replacement value. The replacement value per square metre is set quarterly by edict of the voivoda (chairman of the regional council) as the average current replacement value (based on current construction costs) in the region (voivodship). It was argued that the rent equal to 3 per cent of replacement value per year would cover all maintenance and renovation costs (i.e. a cost rent).

Excessively low incomes of some tenants, various political pressures and inadequate housing allowances are the reason why gminas are rather reluctant to raise rents. Therefore, the regulated rents are much lower than the allowed 3 per cent of the replacement value per year in most of the gminas, remaining on average at 1–1.5 per cent.

(Bonczak-Kucharczyk 1999: 45)

In spite of the growth of rents in gminas housing (for example, in 1998 nominal rents increased by 17 per cent, i.e. 8 percentage points in real terms), the repair rate indicator (the share of total repair costs covered by the rent) was only 0.7. ‘This allowed for conducting conservation operations and running repairs and only in rare instances for performing general repairs.’ (Bonczak-Kucharczyk et al. 1999: 17).

Under the reforms, part of the gminas rental stock should be designated as ‘social housing’ for the lowest income households and households with a high measure of social need (household incomes under the living minimum or in relative poverty). These flats should be of a lower technical
quality and their amenities should be of a lower standard. The rent contract in ‘social housing’ flats is concluded only for a predefined time period (usually one year) and the rent is much lower than in other gminas flats. In 1997 there were only 20,000 designated ‘social flats’ in Poland.

The 1995 Act on Selected Forms of Support for Housing Construction created the National Housing Fund. Its activity contrasts with the State Housing Development Fund established by the Czech parliament. The fund consists of subsidies from the state budget, interest on extended loans and credits, interest on fund deposits held with banks, donations and repayments of credits. The financial resources should be allocated in the form of a preferential loan only among social housing associations (see below) and housing cooperatives for the construction of rental dwellings. The gminas can obtain the loan only for installation of the technical infrastructure associated with housing construction but not for construction itself. Financial resources available to the fund may be used for no more than 70 per cent of the project costs. According to the Act the interest on the loan cannot exceed the discount rate of the National Bank of Poland. By further edict of the Ministry of Finance the interest rate for new rental construction was set at 50 per cent of the discount rate. Dwellings in buildings constructed using a preferential loan from the fund cannot be turned into private property. Consequently, a cooperative may obtain a loan only if it prohibits the transfer of these new flats from ‘cooperative rental’ into ‘cooperative ownership’ statutory form. The Minister of Physical Planning in coordination with the Minister of Finance defined the specific rules and procedures for awarding preferential loans:

- Construction costs cannot exceed the replacement value per square metre set quarterly by edict of the voivoda, taking into account the size of the residence, the structure of the housing stock and other factors.
- The applicant must have a suitable guarantee (mortgage) of repayment.
- New rental flats must fulfil explicit provisions on the insulation of walls, floors and ceilings to conserve energy (heating), and the area of the flat must be higher than the normative area indicated in the edict.
- The National Housing Fund can amortize 10 per cent of the construction costs if the building was constructed on time and according to the conditions set forth in the credit contract. (This is the only financial aid in the form of a grant.)

One of the most important contributions of rental housing reform concerns the introduction of a new type of social housing operator. Social housing associations (TBS – Towarysztwa Budownictwa Społecznego) were established by the above-mentioned Act passed in 1995. A TBS can take different legal forms: limited liability company, joint-stock company or cooperative of legal persons (but not physical persons who could set up the housing cooperative). In fact, more than 90 per cent (probably more than
95 per cent) of new housing associations operating in Poland now have the form of limited liability companies. A TBS can be started by a gmina itself, and in fact more than 90 per cent of currently operating associations were started by gminas. Even when a TBS is set up by a different entity, a gmina or gminas on whose territory the TBS operates have the right to appoint their representatives to the Supervisory Board. A TBS cannot make a profit (it does not pay income tax), its status and rules (articles) and all their changes must be accepted by the President of the State Office for Housing and Urban Development. Its primary function lies in the construction and management of rental housing units. In addition to their main activity the associations may also purchase dwellings, carry out repairs, lease commercial space in buildings operated by associations, administer buildings under commission for third-party owners (gminas), and carry out other activities connected with the construction of housing and associated infrastructure.

The rents in TBS housing are regulated and set by the Gmina Council. The rent cannot exceed 4 per cent of the replacement value of a dwelling set by the voivoda in its quarterly edicts and the sum of rent payments from all dwellings owned by a TBS must cover all maintenance and repair costs, as well as the repayment of the qualified loan from the National Housing Fund (cost rent). There are explicit rules for allocating new rental flats too. A TBS can only rent a dwelling to someone if no member of the household has a legal title to another dwelling and if the total household income does not exceed the average monthly salary in the given region (set by the Chairman of the Central Statistical Office for every region biannually) by more than: (a) 20 per cent in a single-person household, (b) 80 per cent in a two-person household and (c) a further 40 per cent for each additional household member in larger households. Moreover, the tenant household must present to the TBS a declaration of average monthly household income for the past year once every two years. If the declared household income exceeds the aforementioned coefficient, the association may charge a free market rent. Since a TBS operates as an independent association not receiving financial grants from the public budget and repays the loan from rents, it tends to allocate its flats to households with economically active members who have permanent and secure incomes (i.e. to middle income households). Every TBS therefore sets internal rules concerning the minimum household income.

TBS housing has been constructed in Poland since 1996. Up to the end of 1999 the construction of 13,761 dwellings had started; the preferential loan was granted to a total of 23,000 dwellings in that period (The National Economy Bank). The rents are relatively low and the new dwellings serve families with middle and lower incomes (though not those with the lowest incomes). Total housing expenditures accounts for 15 per cent of total two-person household income on average (TBS 2000). ‘What can already be ascertained is that in comparison to other housing assets heating and hot
water preparation expenses are markedly lower due to the improved thermal insulation in Social Housing Associations’ housing’ (Bonczak-Kucharczyk et al. 1999: 19). The goal of the programme was the construction of 10,000 social dwellings per year and this goal will be very probably fulfilled in 2001.

The housing allowance was introduced in 1995. To qualify for a housing allowance a household cannot earn more per head than the lowest retirement pension in multi-person households, and not more than 150 per cent of the lowest retirement pension in one-member households. Eligibility for an allowance is restricted by the area of the dwelling. The allowance is equivalent to the difference between the current expenses connected with the apartment and the following percentages of household income: 15 per cent of total income for one-member households, 12 per cent of total income for two-, three- and four-member households and 10 per cent of total income for five- or more member households. A household cannot apply for a housing allowance if the area of the dwelling is larger than 130 per cent of the normative dwelling area in buildings constructed after 1945 or larger than 150 per cent of the normative dwelling area in buildings constructed before 1945. Households have to declare their total net income every six months to obtain the housing allowance. If the household does not pay the rent the allocation of allowances will stop until the debt is paid. In fact, the conditions are so restrictive that only about 6 per cent of Polish households receive the housing allowance, mostly households from the medium-size gminas (less than 25,000 inhabitants) and from regions with high unemployment. Though the formula for calculating housing allowances is close to continental EU models, the aim of securing greater financial affordability of housing has been so far fulfilled only in a limited way.

4. SLOVAKIA

Initial conditions in Slovakia were similar to the Czech Republic. According to the 1991 census, 50.2 per cent of the housing stock was composed of owner-occupied houses, 21.2 per cent of municipal (former state) rental flats, 22.1 per cent of cooperative flats and 6.5 per cent of state enterprise flats. The regulation of rents as well as large tenant protection remained unchanged up to 2000. After the dissolution of the federation, Slovak housing policy concentrated on support for the privatization of municipal flats and the construction of owner-occupied housing. A dramatic decline in both public and private rental housing construction occurred after 1990. ‘The current structure of the housing construction does not meet the whole demand for housing, but only the demand of higher income households’ (Zapletalová et al. 1999: 14).

After the transfer of former state flats into the ownership of municipalities (1991) the privatization of municipal flats took place (1993). By 1998,
about 57 per cent of the municipal housing stock had been privatized (currently this share is very probably higher than 60 per cent) and the share of municipal housing in the total housing stock sharply decreased to 12 per cent. As in other CEE countries new owners founded ‘condominiums of owners’ and around 2,900 condominiums had appeared by 1999. Though successful privatization strengthened the motivation of former tenants to manage the housing stock, the sharp decrease in the share of public rental housing has and will have significant consequences for the operation of social housing, especially if there is no new rental housing construction.

In contrast to Poland or the Czech Republic, rents in municipal as well as restituted private rental flats were not deregulated during the first populist Slovak governments and remained at a very low level. The average total housing expenditure-to-income ratio was only 9.17 per cent in 1998 (Stratégia 1999: 11) and rent took up only 10.2 per cent of total household housing expenditures in the third quarter of 1999 (Inštitút bývania 2000). In current (1992) prices, there was even a slight decrease in rents between 1992 and 1999 and, though rents were raised on 1 January 2000, ‘real’ rent prices have not yet reached 1992 levels. ‘The current regulated rent price is equal to 15–18 per cent of the real economic rent in newly constructed flats of similar standards.’ (Zapletalová et al. 1999: 5). The deregulation of energy and water prices (utilities) took place on 1 January 1999; rents were deregulated one year later. The regulated rents were raised by 70 per cent on 1 January 2000, but they still are far below the level of cost rent and much less than market rents.4

The total obstruction of rent deregulation seems absurd when there is a high percentage of rich households living in the municipal regulated rental sector. Though the households living in cooperative flats have the highest average incomes, households living in municipal flats have average incomes, and the households living in their own family houses have the lowest incomes.

Very diverse households live in our municipal flats due to the social thesis that a flat should be a social gratification [i.e. part of the Communist Party’s patronage system]. A high share of municipal flats was allocated as a gift and not in connection with social need. It is not possible to move higher income tenants to other higher quality flats on the free rental and ownership markets.

(Zapletalová et al. 1999: 7)

There are again no legal rules on allocation of municipal flats settled on national level.

As in the Czech Republic, it was intended that the ownership of cooperative flats should be transferred to their occupants. But the transfer of ownership has been blocked by the powerful lobbying of the housing cooperatives and the aim of the transformation Act was not fulfilled.
Moreover, the status of cooperatives is close to the status of ‘rental cooperatives’ in Poland and the members of cooperatives do not have the legal right ‘to sell’ their cooperative share. Despite their status the cooperative flats are not legally defined as social housing and they are, in reality, occupied by the highest income households.

The 1996 Act on the State Fund for Housing Development allowed individuals to obtain funds for housing construction through preferential loans or subsidies from the new State Fund. The activities of the fund were not well enough defined to prevent them from supporting the construction of luxury family houses. There were no limits on the size of the flat, on the type of tenure (ownership, rental, etc.), or on applicants (both physical and legal persons without respect to income). The only differentiation was applied in the case of the interest on preferential loans and on the amount of the grant. The financial resources of the State Fund were used mostly for the construction of privately owned flats and family houses. The self-sufficiency of the fund has not been assured and regular subsidies from the state budget were also not assured. As a result, the fund very soon fell into debt, currently estimated at 6 million SLK (US$150 million).

The activity of the fund was not concentrated on the lower income groups of inhabitants, the preferential loans were granted for ownership construction without regard to the social position of the applicant. There were no regulations concerning the maximum area of the flat or maximum construction costs per square metre. (Stratégia 1999: 13)

A new amendment to the Act introduced some limitations concerning the maximum area of the constructed dwellings: 80 m² for flats and 120 m² for family houses.

A new housing allowance model was introduced on 1 January 2000. The model has the character of the continental models in the European Union countries and is therefore a significant step towards EU standards. The housing allowance formula uses the total housing expenditures of households (not only rents) and its value depends on the size of the household and total net household income. Both tenants (of municipal, cooperative and private rental flats) and owners can apply for housing allowances. Rental households need to have a confirmation that they regularly pay rent and that they do not have any rent arrears. Housing allowance is ‘portable’, meaning that the household keeps its benefit even if it moves to another dwelling. The formula is the following:

\[ HA = MHE - Y \times R \]

where \( HA \) is housing allowance; \( MHE \) is the minimal monthly total housing expenditure; \( R \) is constant (normative rate of burden); \( Y \) is income.

\( R \) was set at the level of 0.3 and \( MHE \) varies according to the size of
household. The MHE values were set taking into account the normative area of the flat or house for different sized households: 33 m$^2$ for a one-member household, 41 m$^2$ for a two-member household, 49 m$^2$ for a three-member household and 57 m$^2$ for a four- or more member household. Though MHE are called ‘minimal’, in fact they represent maximum housing expenditures for households. If the household has housing costs greater than MHE, the difference between MHE and actual costs has to be covered by the household itself. In contrast to the models used in EU countries, real expenditures do not enter the calculations and there is no geographic differentiation. The principle of marginal costs of continental models is not included either: if the household receiving the allowance moves into a different apartment of higher quality and higher rent (while earning the same income) and if the new rent is still below the overall average rent (using the MHE for all of Slovakia), then the difference between the lower original rent and the higher new rent would be fully covered by the housing allowance (like the UK system). Several problems occurred during the first year of the housing allowance programme: difficult interaction between housing allowance and social assistance, too short reapplication period, the low level of MHE and lack of information (Mikelsons and Tatian 2000). As a result, changes to the R constant or to the MHE are being developed for 2001.

5. CONCLUSION

The analysed countries inherited a large burden from socialist housing policies. Judging by EU social housing standards, the most profound changes are apparent in Poland, where reform of the entire rental housing sector took place. The Czech Republic and Slovakia are similar to each other. Though the deregulation of rents was totally frozen in Slovakia as opposed to the Czech Republic, the Slovak government partly succeeded in introducing a housing allowance model close to the continental models used in EU countries, which is not the case in the Czech Republic. The Czech Republic, of course, had better starting conditions than Poland or Slovakia concerning the quality and quantity of the total housing stock, but the postponement of necessary rental housing reform could lead to the loss of this comparative advantage.

To return to the questions at the beginning of this article, we have gathered indicators concerning social housing operation in Poland, Slovakia and the Czech Republic in Table 3. However, this kind of comparison is not, and never can be, sufficient to make definite conclusions.

It is clear that Poland made important steps towards a more effective rental market and towards setting new conditions for social housing operation and construction (though not always in the most effective form). New social housing construction is, moreover, assured by economically
Table 3  Comparison of social housing indicators

<table>
<thead>
<tr>
<th>Instruments</th>
<th>Czech Republic</th>
<th></th>
<th>Slovak Republic</th>
<th></th>
<th>Poland</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Definition</td>
<td>Reality</td>
<td>Definition</td>
<td>Reality</td>
<td>Definition</td>
<td>Reality</td>
</tr>
<tr>
<td>Municipal flats as social housing stock</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Partly</td>
<td>No</td>
</tr>
<tr>
<td>Cooperative flats as social housing stock</td>
<td>No</td>
<td>No</td>
<td>Partly</td>
<td>No</td>
<td>Partly</td>
<td>Partly</td>
</tr>
<tr>
<td>Housing association flats as social housing stock</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>State housing fund supporting social housing construction</td>
<td>Yes</td>
<td>d</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Housing allowance model according to EU standards</td>
<td>No</td>
<td>No</td>
<td>Partly</td>
<td>Partly</td>
<td>Partly</td>
<td>Partly</td>
</tr>
<tr>
<td>Deregulation of rents</td>
<td>Yes</td>
<td>Partly</td>
<td>No, very slow</td>
<td>No</td>
<td>Yes</td>
<td>Partly</td>
</tr>
</tbody>
</table>

Notes:
(a) ‘Definition’ means that the instrument is legally defined and included in the overall housing policy of the country.
(b) ‘Reality’ means that the instrument is effective in reality and meets the expectations connected with its introduction.
(c) Deregulation of rents is added because it would contribute to more differentiation in the rental housing market and would motivate higher income households to withdraw from municipal rental flats; ‘reality’ means that deregulation is high enough to stimulate higher income households to move into the ownership sector.
(d) It is too soon to evaluate the activities of the State Housing Fund in the Czech Republic.
efficient means: rents in new flats must cover the repayment of qualified loans granted from the State Housing Fund. On the other hand, the reliance on state subsidies assuring new social rental construction is predominant in the Czech Republic and Slovakia. The transformation of the rental sector into a more socially justifiable allocation of the social flats has been only partial.

Finally, we should make a brief mention of the problem of social segregation that several Western European countries face in the sphere of social housing. It is clear from the description of the situation in CEE countries that from the point of view of social justice greater social differentiation among different housing tenure is needed. In contrast to the situation in the EU countries, the share of higher income households profiting from inherited privileges and low rents is much higher than in most EU countries. Because of low levels of new rental construction and a non-efficient system of allocating ‘social’ dwellings, the lowest income households (mostly young households) are forced to live in the market rental sector or to enter owner-occupation. It would be hard to explain to the large numbers of non-residing households that they must pay so much for their housing because social cohesion in the municipal housing sector has to be maintained. Determining the limits for social differentiation is more a matter of political art than housing science.

As we described above, Poland made significant steps towards greater social differentiation. In comparison with housing policy in EU countries, these reforms could seem strange and dangerous: the lowest income households are expected to live in so-called ‘social’ housing, lower income households in municipal housing, middle income households in dwellings of housing associations and higher income households in the private rental and ownership housing sector. We cannot yet determine whether rental housing reform in Poland will lead to excessive social segregation that will produce large and perhaps insoluble social problems. Housing policy measures must be very flexible to react to new conditions on the housing market. If flexibility is achieved, we can count on a more optimistic future.

Martin Lux, Institute of Sociology, Academy of Sciences, Jilská 1, 110 00 Prague 1, Czech Republic
website: www.soc.cas.cz/seb

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The inclusion of housing cooperatives in the social housing sector is very problematic as cooperative ownership occupies a middle position between ownership and renting. Housing cooperatives play a significant role only in the northern part of the European Union (Sweden, Norway and Denmark) and most of their stock has more or less the character of ‘ownership’ housing (the flats can be ‘sold’, sublet, etc.). As a result, they are not often included in social housing statistics. As housing cooperative flats form a significant part of the housing stock in several CEE countries we must therefore analyse their situation as well; e.g. in Poland and Slovakia cooperative flats (or at least some of them) have more or less the character of rental housing and, by our definition, could be included in the social housing sector.

Housing allowances in the EU continental models are commonly computed in relation to household income and real or normative rent or housing expenditures. The real or normative expenditures play an especially important role in the formula used in EU systems.

Income is understood as total net income including transfers (with the exception of social transfers for orphans) after the deduction of taxes, social and health insurance payments.

Market rents can be introduced in the case of new rental contracts (vacant flats in the private rental sector, etc.) as in the Czech Republic.

REFERENCES


—— 1999. ‘The Reform of the Rental Housing Sector in Poland in Recent Years – Results of the New Solutions’. Paper for the ENHR Conference held at MRI, Budapest.


Note

This article is based on the following publications by the author: