PRIVATE HOUSEBUILDING AND HOUSING MARKETS IN TRANSITIONAL ECONOMIES: THE CASE OF BULGARIA

by

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A thesis submitted in conformity with the requirements for the degree Doctor of Philosophy
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ABSTRACT

The primary aim of this study is to explore both theoretically and empirically the impacts of housing reforms in post-socialist countries on structures of housing provision. In exploring this phenomenon, it views housing provision systems as a set of institutions and actors organised in the process of promotion, production, marketing and consumption of housing as socially created and dependent on cultural, social, economic contexts. The research focuses on new housing provision for the home ownership markets with a particular emphasis on strategies developed by private housebuilders. The work, based on a comparative analysis of housing market dynamics in 12 countries in Central and Eastern Europe seeks to identify major patterns of change in owner-occupied housing provision and new housebuilding in the context of the transition from a centrally planned to a market economy. More specifically, it deconstructs the economic, social, and spatial manifestations of those processes through case studies of two local housing markets in Bulgaria. Although the focus of this research is on Bulgarian owner-occupied markets and private housebuilding, its broader objective is to contribute to the analysis and evaluation of new housing provision in the context of transition from central planning to markets.
The principal conclusions of the research are that: i) competition and penetration of the market in the housing provision system have transformed home ownership in post-socialist countries from a supply-driven into a demand-driven tenure; ii) the new market-led housing provision systems have become more diverse and socially efficient with respect to consumer preferences, and the quality of the housing product. iii) the linkage between rising house prices, escalating production costs and historically low levels of housebuilding, together with a growing affordability problem, are indicators of the growing crisis in these new provision systems and the lack of economic efficiency; iv) it is not possible to improve the economic, social and dynamic efficiency of the housing provision system without corresponding changes in the framework affecting its structure and operation; more efficient forms of state regulation, designed to ensure the long-term supply of urban land and capital for housebuilding, are required to balance existing housing market imperfections and to enable competition in the market place.
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The nature of international research necessitates collaboration with colleagues. This was particularly true in my case. While attending conferences and workshops, I gradually established a network of people who had done housing research in Central and Eastern Europe. A number of researchers and housing professionals in different countries have assisted me in my work, sharing information, working papers and publications. In particular, I would like to thank Christina von Schweinichen from the Human Settlements Division of the UN-ECE, Geneva, for supplying me with data and manuscripts, while I was researching and writing my thesis. Of course, in Sofia and Bourgas, the cities where I conducted my field work, I have far too many people to thank — leaders of housing industry associations, architects, planners and many colleagues with whom I had insightful discussions. I thank them for their very professional assistance. Many Bulgarian friends made this research an enjoyable experience. Lastly, I give my appreciation and thanks to all housebuilders I interviewed who shared their views and experiences with me.

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PREFACE

The transition from a centrally-planned to a market-based economy in Central and Eastern Europe (CEE) has been one of the fundamental transformations of the 1990s. The ‘shock therapy’ effectively dismantled the state owned economy and state institutions. The profound transformation no doubt has major economic, social and political implications for post-communist societies in general, and is reflected in the restructuring of national housing systems. The socialist experiment in housing has been superseded. CEE countries have made a considerable progress in establishing market-based housing systems.

Institutional change is an indivisible part of this transition process, but its importance is rarely understood. A fundamental question addressed in this dissertation relates to the importance of institutions and actors in the housing market which account for critical differences in the nature and operation of different housing systems. The analysis captures the complexity of the transition process in the home ownership markets of post-socialist economies presenting housing provision as a system of institutions and actors organised in the process of promotion, production, marketing and consumption of housing. Such an analytical approach enables the conceptualisation of the dynamic process of change as a continuum of transforming structures bridging the two totally different housing systems – the centrally-planned and the market-based. It assists in the conceptualisation of housing reforms, offers valuable lessons about policy experiments, but also contributes to the wider debate on the relationships between institutional structures and market outcomes in different national and local contexts.
TABLE OF CONTENTS

ABSTRACT
ACKNOWLEDGEMENTS
PREFACE
TABLE OF CONTENTS
LIST OF TABLES
LIST OF FIGURES

CHAPTER 1: INTRODUCTION
1.1. Background and Rationale for the Research
1.2. Objectives of the Study
1.3. Research Methodology
1.4. Organisation of the Study

CHAPTER 2: UNDERSTANDING STRUCTURES OF HOUSING PROVISION AND HOME OWNERSHIP MARKETS IN TRANSITIONAL ECONOMIES
2.1. Review of the Literature
2.1.1. Towards a New Eastern European Housing Model?
2.1.2. Summary of the Main Issues
2.2. Conceptual Framework
2.3. Research Propositions

CHAPTER 3: HOUSING REFORMS IN CEE AND NEW STRUCTURES OF HOUSING PROVISION
3.1. The Macroeconomic Environment
3.2. Home Ownership under State Socialism
3.3. Housing Reforms and Home Ownership

vi
3.3.1. Privatisation of Public and Co-operative Housing 61
3.3.2. Deregulation of Prices and Restructuring of Subsidies 64
3.3.3. Reform of Housing Finance 67
3.3.4. Privatisation of Construction and Maintenance Enterprises 69
3.4. Changing Structures of Owner-Occupied Housing Provision 70
3.4.1. Actors and Institutions in the Provision System 74
3.4. 2. Forms of New Housing Provision 74

CHAPTER 4: DIFFERENTIATION IN THE HOME OWNERSHIP MARKETS 81
4.1. Patterns of Home ownership 82
4.2. House Price Dynamics and Differentiation 91
4.3. Emerging Spatial Submarkets 94
4.4. The Changing Profile of Home Owners 97
4.5. Tenure in Transition 98

CHAPTER 5: BUILDING FOR THE HOME OWNERSHIP MARKET 103
5.1. Determinants of New Housing Supply and Demand in CEE 103
5.2. Housing Demand 105
   5.2.1. Demographic Change and Income Differentiation 106
   5.2.2. House Prices and Affordability 108
5.3. Trends in the Supply of New Housing 111
   5.3.1. Collapsing Output 111
   5.3.2. Growing Share of Private Housebuilding 113
   5.3.3. The Housing Industry in Transition 117
5.4. Outcomes: Building for the Elite Market 121

CHAPTER 6: HOUSING REFORMS AND PRIVATE HOUSEBUILDING: 128
THE CASE OF BULGARIA 129
6.1. The Context: Macroeconomic and Political Instability 129
6.2. Housing Reforms and Changing Housing Markets: A Tale of Two Cities 132
  6.2.1. A ‘Nation of Home Owners’ 135
  6.2.2. Deconstructing Home Ownership in Local Markets 138
6.3. House Price Dynamics: Bourgas and Sofia in a Comparative Perspective 143
  6.3.1. House Prices and Economic Instability 143
  6.3.2. Submarkets and Differentiation 147
6.4. The Factors Influencing Effective Demand 154
6.5. Building for the Home Ownership Market 162

CHAPTER 7: THE MARKETPLACE: COMPETITIVE STRATEGIES OF HOUSEBUILDERS IN BOURGAS AND SOFIA 168
7.1. Owner-Occupied Structures of Housing Provision: Principal Agents and Social Relationships 168
  7.1.1. The Private Housebuilders 169
  7.1.2. The Other Principal Agents 175
7.2. Economic Efficiency of the System 183
  7.2.1. Costs in New Housebuilding 183
  7.2.2. The Chaotic Behaviour of Prices 186
7.3. The Social Efficiency of Private Housebuilding 190
  7.3.1. Product Diversity and Marketing Strategies 191
  7.3.2. Affordability and the Myth of Consumer Choice 195
7.4. Dynamic Efficiency and the Organisation of Housing Production 197
  7.4.1. Land Strategies 197
  7.4.2. Production Cycle and Efficiency 200
  7.4.3. Strategies for Financing and Risks 203

CHAPTER 8: FAVOURING THE MARKET 206
8.1. Housing Reforms and the Transformation of Home Ownership 206
8.2. Changing Structures of Housing Provision 209
8.3. Is Market-Based Housing Provision more Efficient in Economic and Social Terms? 211

8.4. Further Research Needs 220

APPENDIX 1: DATA SOURCES AND LIMITATIONS 223

APPENDIX 2: SURVEY DESIGN AND METHODOLOGY 226

APPENDIX 3: SURVEY OF PRIVATE HOUSEBUILDERS IN BULGARIAN HOUSING MARKETS 232

APPENDIX 4: LIST OF INDIVIDUALS INTERVIEWED 241

REFERENCES 245
LIST OF TABLES

Table 2.1. National and local housing deficit or surplus in CEE, 1994 25
Table 3.1: Major macroeconomic indicators in CEE 47
Table 3.2: Tenure change in selected transition economies 1990 to 1994 59
Table 3.3: Forms of new owner-occupied housing provision in CEE 78
Table 4.1: Indices of housing conditions in owner-occupied housing in 1994 86
Table 4.2: House prices in owner-occupied markets in CEE, 1990-1994 93
Table 4.3: Home ownership: stages of transition 99
Table 5.1: Households and household income, 1994 107
Table 5.2: Housing costs in the owner-occupied sector, 1994 110
Table 5.3: New housing construction according to type of developer, 1980 - 1994 114
Table 5.4: Construction firms grouped according to number of employees in CEE 118
Table 5.5: Land and construction costs in owner-occupied housing, 1990-1994 124
Table 6.1: Bulgaria: key economic indicators 130
Table 6.2: Housing conditions in the owner-occupied sector, 1994 140
Table 6.3: Quality characteristics of owner-occupied housing, 1994 142
Table 6.4: Structure and size of households 1994 155
Table 6.5: Housing costs in owner-occupied sectors, 1989-1995 158
Table 6.6: Credits for construction and purchase in the private sector 161
Table 6.7: New housing output by type of developer, 1988-1996 163
Table 6.8: New housebuilding in Sofia and Bourgas, 1993-1995 165
Table 7.1: Selected indicators for the construction industry, 1990-1995 180
LIST OF FIGURES

Figure 2.1: Owner-occupied structure of housing provision in Britain 33
Figure 3.1: Housing investment as a percentage of GDP 63
Figure 3.2: Bank lending rates in selected transition economies 65
Figure 3.3: The housing provision system in CEE: major actors and institutions 71
Figure 4.1: The growth of home ownership in CEE 82
Figure 4.2: Home ownership in CEE and GDP per capita 84
Figure 4.3: Poor quality in high rise buildings 87
Figure 4.4: High-rise apartment buildings in the peripheral housing estates of Bourgas 90
Figure 4.5: Mass produced and uniform housing in Sofia 91
Figure 4.6: Home owners in the housing estates have acquired a lower housing status 96
Figure 5.1: Determinants of new housing supply in the home ownership market of transition economies 104
Figure 5.2: First time buyers face significant affordability problems. 109
Figure 5.3: New housing construction per 1,000 inhabitants, 1980 and 1990 - 1994 112
Figure 5.4: Home ownership and share of privately developed housing, 1994 116
Figure 5.5: Cash payments have become the basis for financing of new housing 120
Figure 5.6: New housing in the inner city of Bourgas 122
Figure 6.1: A map of Bulgaria 129
Figure 6.2: Changing structures of owner-occupied housing provision in Bulgaria 133
Figure 6.3: Changes in house prices: Sofia, 1990-1997 145
Figure 6.4: Changes in house prices: Bourgas, 1990-1997 146
Figure 6.5: The urban structure of Bourgas 149
Figure 6.6: Housing submarkets in the urban structure of Sofia 151
Figure 6.7: House price dynamics in selected submarkets: Sofia, 1990-1996 152
Figure 6.8: House price dynamics in selected submarkets: Bourgas, 1990-1996 153
Figure 6.9: Dynamics of selected macroeconomic indicators 160
Figure 6.10: Privately developed housing, 1988-1996 164
Figure 7.1: Structures of owner-occupied housing provision in Bulgaria: stages and actors 169
Figure 7.2: Housebuilding firms classified according to output and number of employees 171
Figure 7.3: Slow privatisation is a significant constraint for private housebuilding 182
Figure 7.4: Construction costs in tradition-built housing, 1992-1996 185
Figure 7.5: Annual changes in land and housing indicators in Sofia, 1990-1997 188
Figure 7.6: Annual changes in land and housing indicators in Bourgas 189
Figure 7.7: Mixed-use development in the inner city of Bourgas 192
Figure 7.8: Typical medium density housing development in Bourgas 193
Figure 7.9: The third stage in an upscale condominium development in Lozenetz, Sofia 194
Figure 7.10: Private redevelopment of a whole neighbourhood in the inner city of Sofia 199
Figure 7.11: Typical tradition-built housing under construction 201
CHAPTER 1: INTRODUCTION

The transition from a centrally-planned to a market-based economy in Central and Eastern Europe (CEE) has been one of the fundamental transformations of the 1990s. The process dominates the policy agenda of more than 28 countries and affects over 400 million people in CEE. Post-socialist societies experienced immense economic and social changes associated with the restructuring of a monolithic system of central planning and state ownership of assets. The ‘shock therapy’ effectively dismantled the state-owned economy within a few years. Lines of authority, industrial suppliers, and distribution networks, suddenly disappeared. Parallel to that process, large scale privatisation of the industry and an opening up of previously sheltered markets created a new environment of competition. Certainly such a radical transformation within a short time frame is fraught with hazards. Rigid controls gave way in many cases to anarchy or to a series of ad hoc measures which aggravated economic hardships. The transition to markets occurred without the supportive institutional structure, and financial and legal transparency to facilitate economic change. This is a crucial, but usually unrecognised barrier to efficient market reforms.

The profound transformation no doubt has major economic, social and political implications for post-communist societies in general, and is reflected in the restructuring of national housing systems. As such it provides a unique opportunity to explore the impact of these reforms on the housing sector.
1.1. BACKGROUND AND RATIONALE FOR THE RESEARCH

Over the past few years an impressive number of articles and research papers have been published about the transformation of housing systems in CEE. Several studies provide insightful evaluations of the progress of housing reforms in transition economies focusing on the privatisation of housing, the deregulation of property markets and the restructuring of housing production (Baross and Struyk 1993, Renaud 1995, Hegedüs et al., 1996, Struyk 1996, Telgarsky and Struyk 1991, Turner et al. 1992). Other studies explore the transition to a market-oriented housing system in particular national contexts (Hegedüs and Tosics 1994, Klepikova et al. 1996, Kosareva et al. 1996, Musil 1992, Ravicz 1992, Sykora 1996, Tatian 1993), analysing privatisation, institutional and financial reforms, and the changing role of the state in the housing sector.

However, there has been almost no research on housing markets and none on the changing systems of private housing provision in the context of this transition process. In general, most studies have been policy oriented, descriptive and country specific. Institutional change is an indivisible part of the transition process, but its importance is rarely understood. Housing reforms have set a new framework for the operation of key agents and institutions. A multiplicity of new private sector agents replacing the former socialist, state-owned institutions has emerged. State bureaucracies, privatised construction enterprises, market-based suppliers, builders, consumers, and landowners operate under a new, but as yet not clearly defined, set of rules and regulations. In the context of market-driven housing provision the transformation of institutional structures along market principles enables competition and facilitates the efficient operation of
housing markets. Dramatic institutional and policy changes have occurred in both Western and Eastern European housing systems in the last decade. In Western Europe governments for economic and ideological reasons are withdrawing from direct intervention in the housing sector and are dismantling some institutions associated with the welfare state. Variations in the adjustment of housing policies to the changing economic circumstances in these countries have lead to more market-oriented housing policies, less government intervention in the housing markets, promotion of home ownership and replacement of brick and mortar subsidies for social housing with means tested subsidies to individual households (Lundqvist 1992, Kleinman 1995, Somerville 1994). Though the countries in CEE have experienced similar processes of change in the 1990s, they have had far more dramatic consequences for their state controlled housing systems. Former socialist countries are a heterogeneous group. Despite five decades of state socialism, it is not correct to assume that the housing systems of CEE countries were identical. The similarities were a result of the centrally-planned model of economic and social development that was undeniably a powerful ideological imperative. CEE countries had highly centralised housing systems with comprehensive state control over the production, allocation and consumption of housing. Despite some variation in different national contexts, the role of the state institutions in housing provision was critical (Hegedüs and Tosics 1996, Turner 1992). Housing in those relatively egalitarian societies was a constitutional right and was priced to be universally affordable. The actual operation of the systems, however, led to chronic housing shortages, overcrowding and production inefficiencies (Hegedüs et al. 1996, Renaud 1991). Furthermore, there
were still serious housing inequalities and the bureaucratic allocation mechanism, particularly in the 1980s, was open to corruption and nepotism. Within the socialist housing systems there were unique sets of socially created institutions, with their nationally specific history, structure and rules of operation.

Privatisation, deregulation and marketisation in the supply of housing and housing services have become the key elements in housing reforms. Most importantly, housing reforms have contributed to the emergence of housing markets, thus changing the social meaning and the economic logic attached to home ownership. The previous administrative allocation system has been replaced by market allocation, where access to home ownership is determined by the purchasing power of the households (Dübel and Tsenkova 1997).

The overall impact on the supply side is diverse and difficult to capture in a comparative perspective. Although at this stage both public and private institutions and actors are involved to different degrees and in different ways in the provision of new owner-occupied housing, the balance is gradually shifting to the private sector. New housing is produced with a variable mix of public and private initiatives, capital and labour. However, in a demand-driven system the process offers more choice and diversity to consumers. This shift from a supply-driven to a demand-driven provision system has affected housing institutions, particularly the private housebuilding industry. While it may take many years to create efficient housing markets, the effect of the housing reform on institutions, actors and relationships within the housing provision system is a reality.
The efficiency of their performance can be evaluated empirically through an analysis of housing output, prices, costs and quality of the product.

This process of restructuring from centrally-planned to market-based housing provision systems presents an intriguing opportunity for research. A fundamental question addressed in this dissertation relates to the importance of institutions and actors in the housing market which account for the critical differences in the nature and operation of different housing systems. Given the significance of institutional change in reshaping centrally-planned into market-based housing systems, this dissertation explores the new relationships of institutions and actors in the home ownership markets and identifies the major differences between socialist and transitional systems in that respect.

The analysis attempts to capture the complexity of structural change in the home ownership markets of post-socialist economies presenting housing provision as a system of institutions and actors organised in the process of promotion, production, marketing and consumption of housing. Such an analytical approach enables the conceptualisation of the dynamic process of change as a continuum of transforming structures bridging the two totally different systems – the centrally-planned and the market-based. It provides a new perspective on the evaluation of housing reforms, assists in the conceptualisation of the transition process, but also contributes to an understanding of the relationships between institutional structures and market outcomes in different national and local contexts.
1.2. OBJECTIVES OF THE STUDY

This study explores both theoretically and empirically the impacts of housing reforms on structures of housing provision in the context of the transition from a centrally-planned to a market-based economy. The research focuses on new housing supply for the owner occupied market with a particular emphasis on strategies developed by private housebuilders. The work, based on a comparative analysis of housing market dynamics in 12 countries in CEE seeks to identify major patterns of change in owner-occupied housing provision and new housebuilding. More specifically, it explores the economic, social, and spatial manifestations of those processes through case studies of two local housing markets in Bulgaria. Although the focus of this research is on Bulgarian owner-occupied markets and private housebuilding, its broader objective is to contribute to the analysis and evaluation of new housing provision in the context of transition from planning to markets.

The framework employed in this study relies heavily on the concept of 'structures of housing provision’. This concept is viewed as particularly appropriate for understanding the process of institutional transformation in the transition from a centrally-planned to a market-based housing system. Housing provision is examined as a dynamic process of interaction between public and private agencies and institutions operating in those markets (Ball 1983, Ball and Harloe 1990). While it is recognised that the organisation of housing is a result of the interaction of several components - promotion, production, allocation/distribution, and consumption, this study mainly focuses on the production/promotion process. Nonetheless, changes in the regulation,
allocation and consumption of owner-occupied housing are considered because of their close relationship with the production process.

Specifically the study has three principal objectives:

1. To evaluate the impact of housing reforms in CEE on structures of housing provision focusing on the interrelations between major institutions and actors involved in the promotion, production, exchange, finance and consumption of owner-occupied housing.

2. To analyse processes and patterns of change in the market for new housing with particular reference to supply/demand determinants and the evolving relationship between prices, costs, and output.

3. To explore alternative strategies of private housebuilders - the most important actors in the new provision systems - through an analysis of the development process in two localities. The focus is on the adjustment of the industry to the changing market place.

1.3. RESEARCH METHODOLOGY

The research begins with a literature review, and an analysis of government reports and academic studies on housing reforms and housing markets in CEE. Exploring the interactions between key institutions in the promotion, production, exchange and finance of owner-occupied housing requires an assessment of supply and demand processes in their dynamics. The comparative analysis explores the emerging differentiation in post-socialist housing markets with respect to quality and prices,
provides contextual information on trends in new private/public housing provision, land
and construction costs, mortgage activity and interest rates. Data on population growth,
household size and household composition are also analysed together with income data
and price-to-income ratios in selected markets. Within that broader framework the
comparative analyses of these data sets point out the general trends, as well as the
specific differences, in the demand/supply relationship of CEE housing markets.
Furthermore, the study analyses time series data from 1990-1994 to demonstrate changes
in national and local post-socialist housing systems; data from the early 1980s are then
used as a basis for comparison with the socialist housing model. To facilitate the
comparative assessment process, only data available in a form similar for all countries
are included in the study, which creates considerable limitations.

The impact of housing reforms on structures of housing provision in two local
markets in Bulgaria is empirically assessed. The evaluation of data at different spatial
scales, at the national level for 12 CEE countries and at the local level in Sofia and
Bourgas, provides an opportunity to explore those processes in more detail and to
highlight differences and similarities in owner-occupied housing provision. The review
of the literature on housing reforms in Bulgaria and the limited data from secondary
sources are supplemented with information from personal interviews with key actors in
the two cities. The first phase of the research (in July 1996) included field work in Sofia
and Bourgas. The collection of data and interviews with municipal officials, estate
agents, housing researchers and other professionals (architects, planners, housing

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1 Data sources are described in Appendix 1.
industry representatives) had the following objectives: first, to identify the impact of housing policies and developments on the owner-occupied housing market; second, to collect current information on housing output, house prices, mortgages, privatisation of the construction and housing industry; and third, to pre-test the survey questionnaire and to set the agenda for a detailed analysis of the development process in the two selected local housing markets.

In the next phase, following these key steps, the major part of the research included interviews with private housebuilders carried out in July and December 1996. That information is used to explore the relationships between the key actors in the newly emerging structures of housing provision, and the behaviour of private housebuilders in the owner-occupied housing markets. In the two distinct local markets under study a stratified sample of active housebuilders, selected on the basis of firm size and output, was identified\(^2\). Plans, feasibility studies and other documentary evidence on housing projects — completed or under construction — were examined to illustrate the range of strategies in the development processes set in the new context of increasing market competition.

1.4. ORGANISATION OF THE STUDY

The study to follow is organised in seven chapters. The next chapter provides a critical evaluation of the literature on housing reforms in CEE with a particular focus on

\(^2\) This maximized the potential differences among housebuilders and therefore provided a better understanding of their operational strategies used in the market place. The diverse responses of the industry to uncertainty on the one hand, and emerging market opportunities on the other hand, were explored through analyses of the history of the firm, output levels, marketing and land development strategies, organization of the production process, efforts to overcome barriers and constraints.
the transformation of the owner-occupied housing sector. It then develops a conceptual framework for the comparative analysis of those processes in the context of transition from planning to markets. Chapter 3 examines in more detail key reform measures, which have profoundly changed the structures and forms of new housing provision in the selected CEE countries. It identifies key actors and social relationships in the owner-occupied market. Within these new economic realities home ownership becomes increasingly fragmented. These trends are analysed in a comparative perspective in Chapter 4. Emphasis is placed on the emerging differentiation and fragmentation with respect to housing quality, prices and socio-economic characteristics of the owners. Central to an understanding of the development process are the changes in the determinants of new housing supply and demand. Chapter 5 explores these issues focusing on income differentiation, housing costs and affordability in all 12 countries. It then examines the emerging trends on the supply side with particular emphasis on housing output, patterns of private sector investment and the shift towards new housing types, better quality and more diversity of the final product.

Chapter 6 analyses and evaluates housing reforms in Bulgaria. It examines the processes in the newly emerging housing markets of Sofia and Bourgas and changing structures of owner-occupied housing provision associated with those markets. Private housebuilding is explored in the local context with a focus on the dynamic social and economic relationships of key agents involved in the development process. Chapter 7 then builds a profile of the private housing industry in the two local markets and maps out housebuilders’ strategies with respect to land acquisition, the organisation of
production and marketing. Chapter 8 summarises the key findings of the study and identifies major constraints for the efficient operation of private housebuilders in transition economies.

To re-iterate, this study seeks to contribute to both the theoretical and practical understanding of the emerging housing market dynamics and structures of housing provision in CEE. The main justification for this research is the general absence of appropriate conceptualisations and the limited empirical information available to assist in our understanding of the complexity of change in owner-occupied housing markets in the process of transition. The analysis of those processes identifies trends in the changing structures of housing provision, explores alternative strategies and the behaviour of new actors in the market place, and highlights the debate on state/market mix in the new housing systems of CEE. The study mainly employs qualitative research methods, though quantitative data are used extensively to provide statistical descriptions and inferences.
This chapter highlights the themes in the literature on housing reforms in the countries of CEE which can be used as a starting point for the research. The critical review of the literature focuses on key issues related to the process of transformation of home ownership and new housebuilding. It identifies gaps in existing research and emphasises the importance of institutional reforms in understanding the dynamic transformation of the housing sector during the transition from planning to markets. Drawing on a wide range of concepts in the current housing literature, the chapter develops a conceptual framework for the analysis and evaluation of home ownership which can be applied to transition economies. The transformation of home ownership is viewed as a product of the changing structures of housing provision set in a particular context of radical economic, political and social change.

2.1. REVIEW OF THE LITERATURE

Most of the comparative studies on housing reforms in CEE attempt to capture the significance of the transformation process focusing on changes in housing supply, tenure structure, reforms of public sector housing and housing finance (Baross and Struyk 1993, CUI 1997, Hegedüs et al. 1996, Renaud 1995, Struyk 1996). There is, despite the diversity of perspectives and experiences, a consensus on the key indicators which can be used to measure progress in the restructuring of the housing sector on market principles. This consensus, however, is probably due to significant information
constraints and the limited data on housing in transition economies, rather than a common theoretical framework. Explanations and evaluations available in the current literature are informed but nevertheless intuitive in a number of cases. The highly dynamic nature of those processes, which is not always possible to assess empirically, combined with differences in the housing market processes and housing policies, make comprehensive analysis and interpretation extremely difficult.

The discourse in this rapidly expanding literature thus far has centred on reform experiences, problems, and future prospects. A number of studies have attempted to assess progress in the transition from a centrally-planned to a market-based system using a range of criteria — trends in investment, subsidies, output levels, housing costs — to name a few (Dübel and Tsenkova 1996, Renaud 1995, Struyk 1996). In most of these cases the authors map out a reform agenda or are often concerned with a specific instrument or element of policy studied in a limited number of countries (Buckley 1994, Clapham and Kintrea 1996, CMHC 1993, Jaffe et al. 1995, Lowe 1993, Matras and Renaud 1992, Renaud 1996a, Telgarsky and Struyk 1991). In addition to these policy-oriented comparative studies, recent years have seen a growing number of country specific evaluations of housing reforms examining housing market dynamics in various countries (Hoffman et al. 1992, Kosareva et al. 1996, Marcuse and Schumann 1992, Michelson and Kingsley 1996, Koslowski 1996, Tatian 1993, World Bank 1995). Thus far there has been very little effort to conceptualise those processes employing a systematic theoretical framework for the analysis of different systems and the evaluation of market performance.
2.1.1. Towards a New East European Housing Model?

Hegedüs and Tosics (1992) have developed a model of East European housing system, which can be used as an analytical tool to define similarities in the structure and performance of socialist housing systems in CEE before the transition\(^1\). The model focuses on processes rather than housing structures or institutions. It also acknowledges the general logic and ideological reasons which underpin housing policies and applies the principles of state socialism and central planning to CEE housing systems. The East European Housing Model, broadly stated, has the following characteristics: state ownership of housing and allocation according to housing needs, centrally-planned production and state control over the important aspects of housing (e.g. level of housing investment, housing consumption, subsidies), low housing costs to consumers, no financial barriers for access to housing, and exclusion of market mechanisms in the production and distribution of housing. Certainly systemic similarities in the planning, organisation and implementation of housing sector activities have resulted in a number of generic features common to CEE countries. However, there has been some ambiguity with respect to the applicability of the model in different national systems and contexts (Clapham 1995). In each country there has been a different balance between the state and the private sphere in the provision system (Hegedüs and Tosics 1996).

In reality private ownership and market mechanisms have never been entirely excluded from the socialist housing systems. A reliance on limited, controlled and

\(^{1}\) Though the model has been criticized by Lowe (1993), as an overarching development model which tends to ignore national differences and to oversimplify circumstances in individual countries, high levels of home ownership in Bulgaria and Romania being a notable example, it can be used as a starting point for evaluation.
"encapsulated” market solutions has been advocated by leading political forces in the countries. However, the difference in attitude towards the command vs. market solutions has varied significantly with Russia at one extreme and the former Yugoslavia at the other. Home ownership under state socialism has been a perfect example of those nation-specific and diverging experiences of different countries, particularly in the final stages of socialism. When the socialist regimes were introduced after W.W.II, the share of home ownership in those predominantly agricultural economies was quite high. Following the rapid industrialisation and urbanisation of the 1960s, housing policies in most CEE countries focused on state-controlled provision of housing in high-rise estates. In general, governments tried to starve the home ownership sector through strict regulations on the construction of single-family homes, inadequate access to building materials and limited property rights. Thus, the general policy was to limit the existence of home ownership as much as it was politically and practically feasible (Turner 1992).

In the 1980s the private sector began to play a more important part in East European housing systems (Carter 1990, Hegedüs and Tosics 1992, Turner 1992). This change can be attributed to several factors. First, there was a growing dissatisfaction with housing conditions in state produced housing. Second, high-rise estates were becoming increasingly unpopular. Third, housing policies reflected a more liberalised attitude towards home ownership, which can also be attributed to the overall shortage of state funds for housing investment to sustain high levels of new production. Shifting the burden and the responsibility for housing provision to the individual households and/or enterprises was an economically feasible solution to the growing urban housing
shortages. With respect to new housing development, private sector involvement has taken a number of forms, including co-operative and self-help housing provision, and private responsibility for maintenance and management of owner-occupied housing stock (Dübel and Tsenkova, 1997). Although it hasn’t been encouraged, self-help housing provision existed in every CEE country. Hegedüs and Tosics (1996) consider it as one of the most popular ‘exit strategies’, which allowed individual households to step out of the state controlled housing allocation system and to search for private solutions. Other options included the exchange of private houses and flats and even state-owned apartments. Though transactions were subject to the approval of local authorities, prices in these quasi-market conditions were much higher than the official prices and speculative at best. Money accumulated by households in the shortage economies of CEE countries translated into potential demand for housing within that quasi-market (Kansky 1976).

At the end of the 1980s the East European housing model had begun to disintegrate, a process which had become visible in most of the housing systems (Hegedüs and Tosics 1996a). Chronic housing shortages, and problems with quality, maintenance and upkeep of the housing stock, clearly indicated a growing housing crisis. Furthermore, the disequilibrium between consumer preferences and housing outcomes had increased, the housing sector was incapable to meet the needs of all citizens (Hegedüs et al. 1996). The early 1990s, following the political changes, have marked a period of housing transformation in CEE. Despite limited information on some or, indeed, most aspects of housing sector reforms, it can be argued that most countries in
CEE have undertaken measures to transform centrally-planned into market-based housing systems. Much of the reform efforts have focused on the radical decentralisation of state responsibility for housing provision, privatisation of the housing stock, restructuring of housing supply, development of new housing finance systems, and finally – reform of the rental sector (Baross and Struyk 1993, Hegedüs et al. 1996). In their evaluation Baross and Struyk concluded that “Progress in each of these areas has been uneven across countries... reforms have been carried out in a sporadic rather than smoothly executed fashion” (Baross and Struyk 1993:180).

A number of other comparative studies have also recognised the inconsistencies and lack of co-ordination in the housing reform agenda in most of CEE and identified new problems and barriers for the efficient operation of housing markets (Clapham et al. 1996, Dübel and Tsenkova 1997, ECE 1993, ECE 1996c, Hegedüs et al. 1996, Struyk 1996). Reforms in the sector were not a high national priority and were delayed by the overhaul of macroeconomic policy and industrial privatisation. In effect, the housing sector has become a ‘shock absorber’ in the transition process, rather than an agent of change (Struyk 1996)\(^2\). Most of the changes, in both policies and outcomes, have occurred as a result of new macroeconomic and fiscal realities or/and social and economic pressures (Renaud 1996b).

Nevertheless, many of the reforms in the first stage of transition from planning to markets represent important components of the long-term structural adjustment of the housing sector. For example, privatisation of state/enterprise owned housing has provided

\(^2\) Most countries, for example, delayed comprehensive reforms in the public rental sector. Low rent levels gave considerable security to households in an economic environment which was changing rapidly (see Struyk 1996: 57 for detailed discussion of this point).
an important upsurge to housing markets (Hegedüs and Tosics 1994, Khaddari and Pusanov 1993, Struyk and Daniell 1995). The privatisation of the construction industry has led to the emergence of a competitive, demand-driven supply of new housing (Euroconstruct 1995, Maxian 1991). The restructuring of subsidies and the flow of funds through the housing system, largely imposed by the economic crisis, have created a new fiscal reality in which prices and rents more closely reflect real housing costs. Many other aspects of reforms, both on the supply and the demand side, have changed CEE housing systems profoundly. In general terms, political choices and commitment to a market economy have led to a move towards a dualistic housing model in CEE, which emphasises private ownership and market allocation (Kemeny 1993). In a dualistic model, dominant in the Anglo-Saxon world and most western European countries, private and public rented housing are distinct and the public sector is prevented from effectively competing with the owner-occupied. The result is a residual public sector which serves the needs of the poorest households. By contrast the unitary system has integrated public and private sectors, housing policies are tenure neutral, public rental systems house a large a diverse segment of the population.

There has been no attempt so far in the literature to define the key characteristics of the ‘new model of housing systems in transition’. However, the housing systems of CEE countries today represent a radical departure from the socialist model with state controlled production, allocation and consumption of housing. The literature has pointed out salient features of those systems which seem to be critical in the analysis of

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3 Unitary models exist in Sweden, Switzerland, the Netherlands and Germany.
institutions and actors in the provision of new housing. These include: deregulation of housing markets, emphasis on private provision of housing services (provision of new housing and maintenance of the existing stock), privatisation of the public rented sector, rent reforms, and finally — little or no state intervention in the provision system (Clapham et al. 1996, Hegedüs et al. 1996, Renaud 1995).

2.1.2 Summary of the Main Issues

The literature on housing reforms in CEE highlights a number of important aspects of the transition process from central planning to markets. It is certainly not possible here to provide an exhaustive account of these developments in all of the countries since the early 1990s. Rather, the following review identifies key issues related to the impact of housing reforms over the transformation of the owner-occupied sector.

Privatisation in the housing sector has been central to determining different experiences of transition economies. It has been broadly defined to include different policies which strengthen the market and reduce the role of the state. In the context of the transition, housing privatisation has had three elements: the sale of public assets, initiatives aimed at introducing ‘market discipline’ into service delivery and encouragement of private sector provision and investment (Clapham et al. 1996). The most apparent impact of privatisation has been a considerable increase in home ownership throughout the region. For reasons both political and ideological, most countries have adopted a ‘give away’ policy — generally selling units for 15-30 percent of
the market value -- which has generated a flood of sales and has created ‘nations of home
owners’\(^4\).

Before the transition the housing sector had been largely insulated from pressures
created by macroeconomic adjustment, inflation, and market competition (Balchin 1996,
Renaud 1995). The integration of the sector into the emerging market economy has,
however, resulted in the creation of explicit behavioural linkages between actors in the
provision system -- e.g. producers, developers, landlords, consumers -- and a wide range
of macroeconomic aggregates -- e.g. income levels, inflation rates, investment flows.
These linkages have a powerful influence over the performance of housing systems in the
transition process. More specifically, the role of the state in production, allocation, and
operation of housing has been reduced. Along with these changes there has been a shift in
the form of state intervention in housing -- specifically the elimination of price controls,
the restructuring of the housing subsidy system and a move towards privatisation of the
state owned construction enterprises. Reforms of property rights in housing\(^5\), together
with the privatisation of public housing and the restitution of nationalised property to
former owners, have enabled the operation of housing markets, which in turn has altered
socialist perceptions of housing supply and demand.

\(^4\) Several countries have reached more than 80 percent private ownership of housing: Albania, Bulgaria,
Romania, Hungary, Slovenia. The trend towards a larger owner-occupied sector and a smaller public rented
sector is considered a major achievement of the privatization policy. However, the rapid tenure change raises
two important long-term issues- namely, the future of the public rented sector and the capacity of home
owners to maintain the quality of the private stock.

\(^5\) Changes regarding private property rights -- the right to own, rent and freely exchange housing -- have
been implemented uniformly across the region, though a number of legal ambiguities exist with respect to
land ownership, condominium laws and the maintenance responsibilities (UN-ECE 1996b).
This move towards a market-oriented housing sector, however, has also been accompanied by inflation, economic recession, rapidly escalating construction costs and declining housebuilding activity. Together these have set a rather distinctive scene for the operation of local housing markets. The previous uniformity of land and house prices under state socialism has given way to a diversified and complex system in which prices reflect location, quality, accessibility and level of services. Housing demand in particular locations (e.g. in capital cities and high growth urban centres) has influenced house prices and widened existing disparities in both regional and local housing markets. In general, house prices in some buoyant markets by the end of 1994 have escalated 30-40 times compared to 1989 figures (CUI 1997).

As for housing production, housing reforms have abolished the long-standing discrimination against private sector provision. In effect, this has facilitated the operation of both housing co-operatives and private investors, who have played an important role in housing provision in several socialist countries since the 1970s (Carter 1990, Hegedüs and Tosics 1996b, Hoffman and Koleva 1993, Kos 1992). The withdrawal of the state from the production of housing, and the privatisation of the construction industry, has led to the emergence of a more-or-less competitive private construction sector (Hezky 1995, Kingsley et al 1992, Maxian and Kingsley 1992). Although the pace of those structural changes has been different among countries within the region, and is directly related to the overall industrial privatisation process, several distinct trends have emerged on the supply side. First, investment in new housing has fallen and output has reached the lowest levels in the last 45 years. Second, the prefabricated housing industry – which had
dominated housing output for the last 20 years – has collapsed, giving way to a larger number of small private construction firms\textsuperscript{6}. Third, housing supply has become more responsive to consumer preferences with respect to the type and the size of the units. Continuing problems in the housing supply system – most notably the growing share of unfinished dwellings, lack of construction finance and serviced urban land – have mirrored the economic and organisational difficulties faced by the construction industry. The collapse of new construction in all CEE countries, despite the acute shortages of housing, indicates that new private housebuilders face considerable barriers in their operation. In the short term, the demise of the old state system of production has not been accompanied by an equivalent level of activity from the new market system.

Aside from these supply changes, reforms have had a considerable impact on the demand side. For most households, housing costs have increased at a time of falling real incomes (Balchin 1996, CUI 1997). Effective demand is low, and prices in urban markets are high compared to incomes. Meanwhile, the elimination of supply subsidies and deregulation of markets for basic material inputs have pushed construction and land costs up sharply, so that only a small fraction of the population can now afford the purchase of newly built housing (Kaganova 1995, Koslowski 1996, Muziol-Weslawowicz 1992, Tsenkova 1997). High interest rates, restructuring of demand subsidies and the credit squeeze, in turn have reduced further the pull of private investment into new housing (Klepikova et al. 1996, Lea and Bernstein 1995, Renaud 1996a).

\textsuperscript{6} Private housebuilding firms in 1990 accounted for less than 1 percent of the housing output in the region, while in 1994 they have produced more than 50 percent of the dwellings (Hegedus et al. 1996).
These critical changes on the demand side need to be examined in the context of emerging housing markets and regional/local differences in house prices. Processes of market differentiation contribute to increasing social inequalities\(^7\) in post-socialist cities (ECE 1996a, Picher-Milanovitch 1994, Tsenkova 1997). Clearly those issues have drawn the attention of policy makers and researchers, particularly with respect to recent privatisation of state-owned housing (Clapham 1995, Struyk 1996). The consequences for former tenants are certainly not neutral, but depend on the quality, the type and the location of the unit. Some households have been able to benefit from significant capital gains in the newly emerging markets, selling their ‘cheap housing’, acquired through the socialist allocation system, at market prices. Others have acquired a liability rather than an asset. Anecdotal evidence indicates that the full cost of deferred maintenance and repairs, particularly in multi-family structures of peripheral housing estates, might be higher than the market value of those units. Previous distribution inequalities in the former social housing suggest that often the better stock has been occupied by the better-off tenants. Privatisation legitimises those inequalities. In addition, market pressures accelerated by emerging income differentiation\(^8\) contribute to social segregation in the housing markets. Most of the high-rise estates in post-socialist cities have a socially-mixed population, with poor households as well as affluent households living side-by-side. Segregation might occur as high income households privatise the most attractive

\(^7\) It has been argued that some inequalities in the consumption of housing existed under state socialism. The political elite, or the nomenclatura, often had access to better quality housing and was able to avoid the ‘queue’ - a symbol of the socialist distribution mechanisms (Szelenyi 1983, Turner 1992).

\(^8\) A study of Warsaw, for instance, suggests that poorer former tenants rent out desirable units and move to slum-like housing (Weclawowicz quoted in Marcuse 1997).
parts of the stock. Also there is a possibility for more mobile and affluent households to move out of the high-rise estates into better quality neighbourhoods. Though these trends are observed in post-socialist housing markets, firm empirical evidence in the field is unavailable.

Privatisation policies, mirrored in market outcomes, have been regarded as a “positive sum game where there have been more winners than losers” (Hegedüs et al. 1996: 30). Certainly the ‘winners’ – 31 percent of the households in the CEE region – have acquired ownership of their state-owned apartment at a fraction of the market price. According to some calculations this wealth transfer amounts to US$ 50 billion. However, in the large urban centres ‘the losers’ – more than a quarter of the households – are still queuing for public rental housing. Given the low level of state investment in new social housing provision, it might be expected that these ‘needy’ households will continue to live in overcrowded and substandard conditions. Anecdotal evidence also indicates that street homelessness, virtually non-existent during socialism, is increasing in the capital cities. The transition period seems to have compounded existing economic and housing problems rather than mitigated them.

Within this new market reality housing problems are most often associated with conflicts over affordability, housing shortages and deprivation. Key indicators on urban housing conditions consistently tell a story of overcrowding. Estimating housing shortages in CEE is inherently problematic due to lack of reliable data. However, two

9 Waiting lists for public (municipal or enterprise) housing are an indicator for housing shortages and overcrowding in socialist and post-socialist cities. The criteria to be placed on the waiting list is lower housing consumption per household, or per person, than the nationally approved standards. Often several households would share one unit.
indicators can be used to highlight the extent of the problem in different countries at the national and the local level — the ratio of housing units per 1,000 inhabitants and the general housing deficit, defined as the difference between the number of households and the number of housing units divided by the total number of housing units.

Table 2.1. National and local housing deficit or surplus in CEE, 1994

<table>
<thead>
<tr>
<th>Country</th>
<th>Housing units per 1,000 inhabitants</th>
<th>National housing deficit (-) or surplus (+)1 (%)</th>
<th>Capital city</th>
<th>Housing units per 1,000 inhabitants</th>
<th>Local housing deficit (-) or surplus (+)1 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>219</td>
<td>3.57</td>
<td>Tirane</td>
<td>326</td>
<td>5.00</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>405</td>
<td>13.15</td>
<td>Sofia</td>
<td>428</td>
<td>3.14</td>
</tr>
<tr>
<td>Croatia</td>
<td>336</td>
<td>3.98</td>
<td>Zagreb</td>
<td>353</td>
<td>-1.20</td>
</tr>
<tr>
<td>Czech</td>
<td>397</td>
<td>-1.19</td>
<td>Prague</td>
<td>433</td>
<td>-4.55</td>
</tr>
<tr>
<td>Estonia</td>
<td>410</td>
<td>-2.75</td>
<td>Tallin</td>
<td>411</td>
<td>-1.65</td>
</tr>
<tr>
<td>Hungary</td>
<td>385</td>
<td>0.81</td>
<td>Budapest</td>
<td>406</td>
<td>-6.42</td>
</tr>
<tr>
<td>Latvia</td>
<td>370</td>
<td>-12.53</td>
<td>Riga</td>
<td>336</td>
<td>-24.65</td>
</tr>
<tr>
<td>Lithuania</td>
<td>329</td>
<td>-6.04</td>
<td>Vilnius</td>
<td>293</td>
<td>-26.47</td>
</tr>
<tr>
<td>Poland</td>
<td>296</td>
<td>-5.58</td>
<td>Warsaw</td>
<td>372</td>
<td>-8.51</td>
</tr>
<tr>
<td>Romania</td>
<td>341</td>
<td>5.98</td>
<td>Bucharest</td>
<td>374</td>
<td>3.88</td>
</tr>
<tr>
<td>Russia</td>
<td>326</td>
<td>-20.1</td>
<td>Moscow</td>
<td>326</td>
<td>...</td>
</tr>
<tr>
<td>Slovenia</td>
<td>338</td>
<td>5.21</td>
<td>Ljubljana</td>
<td>374</td>
<td>-3.96</td>
</tr>
</tbody>
</table>

1 Defined as the difference between the number of households and number of housing units as a percentage of the total housing stock.

CEE countries have an average ratio of over 330 housing units per 1,000 inhabitants, which is considerably lower compared to the average of over 400 in Western Europe (UNECE 1995). The indicator varies between 219 in Albania and 410 in Estonia (Table 2.1.). Consequently, there are significant differences in the magnitude of the
national housing deficit. Poland, the Czech Republic and the Baltic States show a deficit of 1-12 percent, while Southern European countries (Albania, Romania, Slovenia, Croatia) have a surplus of 3-6 percent\(^\text{10}\). Data for Russia indicate a deficit of 20 percent.

Local housing market mismatches pose an additional, often neglected quantitative problem for transition economies. These mismatches occur, for instance, in cities experiencing periods of economic growth with corresponding migration of population (e.g. the capital cities), but also in areas with ethnic conflicts (e.g. Croatia, Romania, Estonia). Currently available data allows us to analyze the housing deficit in the capital cities of CEE countries. Though there are more dwellings per 1,000 inhabitants in the capital cities (Riga and Vilnius are notable exceptions) compared to the national average, local housing deficits are greater and the surpluses smaller. Riga and Vilnius have the highest deficit of 24-26 percent, followed by Warsaw (8.5%) and Budapest (6.4%). Sofia and Bucharest show a housing surplus of 3-3.8 percent, but the usable space per person in these cities is low and the share of substandard stock significant. These estimates reveal considerable needs for new housing investment in the region to eliminate housing deficits and improve housing conditions.

The impact of housing reforms on the tenure structure of CEE countries has been significant. Home ownership has become the dominant tenure incorporating a wide range of income groups, while public renting in most of the countries has been marginalised. Other tenure types include private renting and co-operative housing. Due to budget cuts

\(^{10}\) The data for Bulgaria indicates definitional problems. Apparently recreation homes, hostels, as well as temporary housing have been included in the estimate.
and restructuring of the subsidy system, new provision of public and co-operative housing has been discontinued in most of the CEE countries.

The public rental sector is owned by municipalities or state enterprises\textsuperscript{11}, governmental agencies and public organizations. Financed exclusively from the state budget under state socialism, the sector has experienced considerable financial difficulties in the process of transition. Most of the dwellings are in high-rise buildings and are of poor quality. Reportedly better units have been privatised. At the moment Russia, Latvia and Estonia have a sizable public rental sector (45-56 percent), followed by the Czech Republic and Poland with close to 25 percent (MRI 1996). Allocation of housing is at the discretion of local authority housing departments or enterprise/association committees. Public housing is managed by municipal maintenance companies, who collect the rents, handle tenant agreements and disputes, and share maintenance responsibilities with the tenants. Rents in most of the cases are determined at the central level with possible adjustment regarding location, quality and size of the unit. So far, reforms in this sector have been very slow and indicate reluctance of local housing authorities to raise rents and to proceed with more efficient organisation of maintenance and repairs\textsuperscript{12}.

The growing share of private rental housing is largely due to the elimination of rent controls in the private sector and the restitution of public housing. As a new tenure

\textsuperscript{11} Enterprise housing was significant in the former Soviet Union and Yugoslavia where enterprises had a broader social role. In the Russian Federation enterprise housing was 42 percent of the public rental stock in 1991, while in Slovenia (part of former Yugoslavia) state enterprises accounted for 68 percent of the stock in 1990 (Struyk 1996).

\textsuperscript{12} Rents, which were less than 5-8 percent of the household income in 1994, did not cover operational costs.
form it has experienced significant growth in the last five years, but is still less than 5 percent in most of the countries. Though rental market pressures are considerably high in the capital cities and large urban centers, private investors are still reluctant to get involved in the provision of new rental housing. Renters generally have lower income; without housing allowances rents will not deliver adequate return on such investment.

Development of housing co-operatives was an important element of the housing strategies of Czechoslovakia, Poland and Latvia under state socialism. Cooperative housing was generously subsidised, but also required a financial contribution from the cooperative members. It still occupies a middle ground between owning and renting and its future in the market-based system is unclear. Households own shares in the coop and are not allowed to sell their units on the market. Since the mid-1990s, state support has been discontinued and there is a lot of pressure to convert co-operatives into condominiums (e.g. in Latvia).

The radical change of relationship between the state and the market during the transition period has modified the socialist forms of owner-occupied housing provision and has set a new framework for the operation of key agents and institutions (CUI 1997). The marketisation of new housing supply has led to a growing diversity in the structures of housing provision and to a multiplicity of new private sector agents replacing the former socialist, state owned institutions. However, in the context of market-driven supply and demand the legacy of the socialist systems and their institutional frameworks remain as an indivisible part of the new housing systems in transition. CEE countries

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13 As of 1994 the share of co-operative housing is between 6-14 percent in the Czech Republic and Poland.
have had a different housing history shaped largely by the decision-making and the actions of state bureaucracies which is reflected in the socialist distribution of housing, the housing conditions, the unique set of social housing providers - enterprises, local governments, cooperatives. This legacy will distinguish housing systems in transition from mature, market-based delivery systems for a long time. Although housing systems in CEE are fundamentally similar to each other today in the sense that market mechanisms dominate the promotion, allocation and delivery of housing services, there are clear differences in the tenure structure and institutional forms among CEE countries. Influences from the national macroeconomic and political context, as well as policy choices in the second stage of the housing reform, and last but not least – institutional structures – will reinforce those differences and lead to diverging housing experiences among CEE housing systems in the future.

The transformation of institutional structures in the housing sector has proceeded a lot faster in some countries than in others. Though housing, land and capital markets have emerged, the development of market-based institutions has been somewhat haphazard. Housing reforms in the early 1990s have taken place in an institutional and regulatory ‘vacuum’. More specifically, efficient banks and mortgage institutions to mobilise savings and to ensure a steady flow of capital in the housing market have not been established (Renaud 1996a). The uncertainties imposed by the lack of an adequate land and property registration system have had negative implications for the efficient operation of the housing markets (ECE 1996b, Jaffe et al 1995). Fundamental housing market institutions also require the necessary legal framework to be in place – e.g.
effective systems for sanctions, systems for dispute resolution, a system of debt collection, repossession and bankruptcy rules -- which will provide a set of rules and give confidence to all actors in the housing market. Despite the efforts of CEE governments to create a new legislation and/or to amend the existing one, the legal framework has failed to keep up with the market. The lack of efficient housing market institutions is one of the critical differences between housing systems in transition and mature market-based ones.

It is certainly true that the establishment of institutional and regulatory frameworks has taken more than a hundred years in the Western housing systems, but had to be completed within a very short time in CEE countries. The institutional 'vacuum' has aggravated the difficulties in the transition from centrally-planned to market-based housing systems. In addition, it has multiplied the uncertainty about market outcomes and increased the conflicts among participants in the housing markets. The argument raised here has direct implications for the economic and social efficiency of the new housing provision systems. These issues need to be assessed systematically in a comparative perspective.

2.2. CONCEPTUAL FRAMEWORK

Given the importance of housing institutions and actors in the reform process and their significance in reshaping housing systems in CEE, this dissertation focuses on their role in the provision of owner-occupied housing. Analysis of their behaviour and relationships in the new market environment provides a new perspective on the evaluation of housing reforms and assists in the conceptualisation of these dynamic
processes. It has been widely recognised that investigation of institutional changes forms a key empirical question for housing related research (Boelhouwer and Heijden 1992, Burns and Grebler 1986, Harsman 1991, Siksio 1994, Schmidt 1989). Housing market processes in every country are a product of the specific interaction between political, economic and ideological factors. However, it is important to account for institutional structures, key economic actors and their relationships in order to explain and assess these market outcomes (Ball and Harloe 1990). The application of a uniform and comparable methodology is critical in this evaluation of differences and similarities between institutional structures in a comparative context.

The concept of ‘structures of housing provision’ is considered by many scholars, and by this author, as the most appropriate conceptual tool which can accommodate the specific needs of comparative housing research on owner-occupied housing markets in transition economies. This approach focuses on actors and institutions who can influence the way in which the provision and allocation of housing is structured. It explores their social relationships while explicitly recognising the dynamics of those relationships. More broadly, it focuses on the consumption, production and exchange of housing, but with a particular emphasis on the process of production (Ball 1987, 1983). This approach has been applied in a series of international comparative studies of housing (including those by Ambrose and Barlow 1986, Boelhouwer and Heijden 1992, Ball et al. 1988, Barlow and Duncan 1994, Barlow et al. 1987, Donnison and Urgenson 1982, Hallet 1977, Kemeny 1981, Kroes et al. 1988, Lundqvist 1988, 1990, van Vliet 1990b, 1987, van Vliet and van Weesep 1990).
A structure of housing provision (SHP) “via a specific tenure form is the product of particular, historically determined social relations associated with the physical process of land development, building production, the transfer of completed dwellings to the final user and their subsequent use” (Ball 1983:17). SHP is specific to individual countries, though similarities exist between countries based on similarities in social organisation and on mutual development of institutional forms.

"What determines the nature of a structure of housing provision is how the various social agents intervene in the physical process of production, consumption and allocation of housing. This offers a criterion by which to exclude or include social relations for a SHP. A social relation is part of a SHP if it is a component of the physical process of production, allocation, consumption and reproduction of housing." (Ball 1987: 160).

SHP is subject to continuous change driven by their internal dynamics and pressures from the external environment. The internal/external division of factors creating change in a SHP is important, particularly in the context of transition economies. Certainly changes in structures of housing provision are related to the radical economic, social and political restructuring of society. The transformation of centrally planned, state controlled housing systems into market-based ones also reshapes existing structures of housing provision. Despite the significance of these external influences, the development of social relations within a SHP is also associated with a new division of power and responsibilities among key private and public actors and institutions involved, with internal contradictions, and new relations of dominance and subordination.

In his analysis of the British owner-occupied housing provision Ball (1983) has identified the main social agents who intervene in the physical process of exchange, production and land development (Figure 2.1.). The social relations among landowners,
speculative housebuilders, producers of materials and building workers in the production process, as well as relations among financial institutions, real estate professionals and owners in the process of exchange, determine the nature of a SHP. State influence is mediated through housing policy, taxation, the planning system and investment in infrastructure.

**Figure 2.1. Owner-occupied structure of housing provision in Britain**

![Diagram of housing provision structure](image)

Source: Ball 1987:159

A similar framework can be applied to the analysis of SHP in CEE countries. However, this might require considerable adjustment. In the context of transition, the involvement of financial and state institutions in the provision process needs to be determined in a more explicit manner. Financial institutions can intervene at various stages in SHP - e.g. in the purchase of housing or land, in the provision of short-term
construction credit or loans for renovation, etc. Mortgage finance for owner-occupation in CEE is often provided through state owned or quasi-public financial institutions. The role of the state and the scope for state intervention in post-socialist housing systems is different. The state intervenes through regulatory frameworks — building standards, employment regulations, corporate taxation, but also through the planning system — cadastre, land use regulation and approval procedures. In addition to these regulatory powers, state and municipal institutions in CEE are directly involved in the provision of technical infrastructure for new housing development. Furthermore, despite rapid industrial privatization in some countries, state-owned construction enterprises and producers of building materials are still significant agents in the production process. In general terms, state institutions need to be part of SHP in the countries of transition related to the consumption, allocation and production of owner-occupied housing.

There are substantial differences in SHP between countries and periods of time, but also within national contexts where different forms of owner-occupied housing provision co-exist. In CEE countries these forms are very diverse and include speculative housebuilding, self-help and self-promoted housing. The latter two provide opportunities for home owners to be involved in the promotion and land development processes, as well as in the actual production of housing. Forms of owner-occupied housing provision are defined by the relations between those who initiate and control housebuilding and the other institutions and agencies that are part of the development process. The major actors and institutions include developers, builders, financial institutions, landlords, housing

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14 Local housing authorities share maintenance responsibilities with home owners in buildings with mixed ownership, which is often the case in the post-privatization period.
consumers, and the state. The intervention of each group and the series of responses it generates are the key determinants of the social relationships within different forms of owner-occupied housing provision (Ball et al. 1988). Those dynamic interrelations need to be examined in CEE countries with respect to the key components of owner-occupied housing provision, such as: land development, production, exchange and consumption. However, the focus in this analysis needs to be on the most significant institution or actor initiating and controlling owner-occupied housing provision in each country. Understanding different forms of housing provision, therefore, becomes crucial in understanding fundamental differences often concealed under the broad label of tenure (Duncan and Barlow 1994). Differences in promotion, construction and profit distribution not only define a variety of forms in housing provision but also result in differences in the costs, quantity and type of housing produced. Alternatively, self-promoted, self-built, and speculative housebuilding offer different economic opportunities for private housebuilders.

Housing reforms and government policies also exert a considerable pressure on structures of housing provision (Boelhower and Heijden 1992, Murie and Forrest 1990). Fiscal and monetary policies, social welfare policies, subsidies, regulation of the housing industry are powerful factors which shape the specific economic and social context in which housebuilders operate (Clapham 1996, Feddes and Dieleman 1996, Maclenan and Whitehead 1996, Oxley and Smith 1995). Although the extent and focus of various policy initiatives and instruments varies substantially among countries in CEE, an evident and important implication of these observations is that housing policy must be perceived
as an integral and interdependent part of SHP. The social relationships between actors and institutions in the development process are mediated by a policy component. Housing policy and other changes in the macroeconomic and political framework profoundly affect market processes and market outcomes in CEE. An example relates to the elimination of demand related subsidies for owner-occupation and/or supply oriented reforms in the case of marketisation in the supply of land, building materials, and housing finance.

Given the magnitude and the significance of those policy measures in the transition from central planning to markets the analysis needs to contextualize changes in the nature of SHP with a particular emphasis on economic and housing reforms. In addition to the much needed emphasis on the policy component, in the case of transition economies one important principle needs to be pursued systematically: the legacy of socialist housing policy and the provision system need to be examined in order to understand and evaluate the transition from planning to markets. This is certainly the starting point which determines the dynamic transformations experienced by CEE countries. Understanding the complexity and the diversity of the socialist and market-based transition systems in their cause/effect relationship is crucial since they co-exist and overlap at the present stage.

The analysis of social relationships between actors and institutions in the provision process needs to be related to the specifics of the socially created, locally and spatially determined markets in which they operate. The heterogeneity, durability, and locational fixity of housing hold powerful implications for the conceptualisation of the
urban housing market (Bourne 1981, Fallis 1985). Specifically, the market can be presented as a set of distinct but interrelated submarkets. On the basis of house and land price dynamics, it is possible to identify the following emerging submarkets in post-socialist cities: inner city neighbourhoods, peripheral housing estates, suburban housing areas. Those submarkets are not internally homogeneous, but incorporate different types of housing which can be further grouped according to structural characteristics, construction and age.

Given the information constraints and the limited data, research on CEE housing markets can use trends in house prices to identify processes and patterns of change in the submarkets of post-socialist cities\(^\text{15}\). These dynamics can be understood by exploring the behaviour of institutions and actors — financial institutions, households, landowners, housebuilders — as they are manifested in this segmented market through changes in demand and supply (Rothenberg et al. 1991). The concept of SHP does not define what theoretical approach should be adopted in explaining the interdependencies and the differences in the social relationships between key actors in the provision system. Other existing explanatory models, such as those based on neo-classical analyses of supply and demand for housing, can be very helpful in understanding the realities of owner-occupied housing provision in newly deregulated urban markets.

Changes in demand — driven by changes in household structure and composition, household preferences and the purchasing power of households — affect the production

\(^{15}\) House price differences are obviously an important indicator of the spatial differentiation of housing submarkets and an element of housing market change. Short-run price formation is a product of the interaction of supply and demand. The characteristics of the housing market affecting short-run price changes are discussed in detail elsewhere (Fallis 1985, McLennan 1990, Turner and Struyk 1990).
and consumption of owner-occupied housing. Most of the literature exploring those changes relates them to patterns of housing consumption over the life cycle, tenure choice and housing market behaviour (Clark and Dieleman 1996, Gober 1992). Those criteria, hardly ever used in the analysis of socialist housing systems, have become critical in understanding emerging housing market processes in general and fluctuations in house prices in particular. The purchasing power of households reflected in the ratio between average incomes and house prices in different submarkets determines the affordability of new owner-occupied housing\textsuperscript{16}. This point needs careful evaluation in any analysis of post-socialist housing markets since most of the studies so far indicate that affordability constraints have become significant barriers for entry in the housing markets (Clapham 1995, ECE 1993, Tsenkova 1994).

On the supply side, the reform process has emphasised deregulation of prices and marketisation of the provision system. Following this policy shift, owner-occupied housing has become associated with a different way in which housing is provided, including market-based forms of land supply, finance, exchange and production. Those changes are reflected in levels of newly built owner-occupied housing, in the growing share of private investment in housing production, and in the emerging competition between suppliers in the market place. In this context production costs, prices and profits become critical determinants of market outcomes and market behaviour in the provision system as opposed to centrally determined levels of investment and housing output under state socialism. Alternatively, new economic and social relationships between agents at

\textsuperscript{16} There has been an enormous amount written on housing expenditure to income ratios, much of it connected with the affordability problem (Bramley 1992, Forrest et al 1990, Hulchanski 1996).
the different stages of the development process emerge with a direct influence over the nature of the private housebuilding industry.\footnote{The nature of the private housebuilding industry in transition economies, for example, can be examined looking at firm size, market share, output levels, and profits (Ball 1983, Barlow and King 1991, Clayton 1989). These issues need to be explored in relation to privatisation and deregulation of the housebuilding industry and growing competition between private and public firms in the housing sector.}

In their evaluation of housing systems in a comparative context Barlow and Duncan (1994) employ notions of 'production', 'allocation' and 'dynamic' efficiency\footnote{The volatility of output and production costs are used as measures of production efficiency, while the diversity of output and costs to the consumer are used as measures of allocative efficiency.}. Their broad hypothesis is that highly marketised systems of housing production tend to be less efficient than more regulated ones according to those measures. A similar assessment is applied to owner-occupied housing provision in local housing markets using Bulgaria as a case study. ‘Economic efficiency’ of the provision system is broadly defined as the ability to generate an environment producing adequate return on capital with minimum uncertainty and risk for the actors involved (Barlow and King 1992). An analysis of economic efficiency of private housebuilding requires an assessment of key characteristics related to the economic performance of housebuilders such as: profit levels, production costs, labour productivity and input costs (land, labour, materials, finance). Efficiency in the production process is critical for the economic survival of the industry. Two stages in the housing production process have been commonly used to indicate the level of production efficiency: starts and completions (Ball 1996, 1983, Clayton 1989). In transition economies the lag between starts and completions is due to material supply bottlenecks, shortages of adequate credit, legal problems and high
bankruptcy rates among private firms (Tsenkova 1994). Escalating construction costs and excessively high land costs are also an indication of inefficiencies in the system. However, those issues can only be examined and evaluated in more detail at the local level, which is the approach taken in this dissertation.

While any definition of economic efficiency can be linked to a series of quantitative indicators, assessment of the social efficiency of a housing provision system is much more complicated. ‘Social efficiency’ is the ability to achieve an appropriate supply of housing with respect to location, quality, size, and access costs with a minimum of public expenditure (Dickens et al. 1985). A possible measure of social efficiency is the degree of product diversity – such as the physical form and size of dwellings and the choice available to the consumer given entry costs, property control and ownership (Duncan and Barlow 1991). In distribution terms it refers to the provision of good quality housing with a more favourable cost, a high level of consumer choice and a more equitable distribution between income groups and household types. With respect to ‘social’ efficiency of private housebuilding the evaluation process in this dissertation focuses on access to housing, the quality and diversity of the final product, consumer choice and affordability.

The concept of ‘dynamic efficiency’, in particular, takes the analysis of institutions and behaviour further. ‘Dynamic efficiency’ is the ability to improve production efficiency over the long term, to innovate, to introduce new products, technologies, forms of management and control over the development process (Barlow and Duncan 1994). Success or failure can be assessed in terms of competitiveness, ability
to adopt risk reducing strategies and efficient management of the production process (Barlow and King 1991). It is hard to operationalise those criteria empirically. So the analysis examines competitive strategies of housebuilders in the market place with respect to land acquisition, organisation of the production process and financing. Those business strategies in the two local markets — Sofia and Bourgas — are analysed with particular emphasis on risk management and production efficiency.

Comparative analysis of the development process in the owner-occupied housing markets (Ball et al 1988, Barlow and King 1992, Duncan and Barlow 1991) has also highlighted several issues which are important for this study and relate to the ‘economic’ and ‘dynamic’ efficiency of housing provision systems. Among these are: that private housebuilding has a high capacity for adjusting to the changing market place; housebuilders emphasise the significance of marketing strategies, design techniques, diversity of operations, sites and localities, to counteract the instability in the housing market; and that housebuilding is highly susceptible to cyclical instability which leads to increasing housing costs and prices. The instability of the post-socialist owner-occupied housing market in which housebuilders operate has exacerbated these tendencies. In the transition economies, the erratic external environment — unstable macroeconomic and credit market conditions and high inflation — discourages the ‘economic’ and ‘dynamic’ efficiency of the industry. These trends are particularly visible in the process of adjustment from central planning to markets and have a significant impact on the organisation of the industry, the production process, and the quality of the final product.
2.3. RESEARCH PROPOSITIONS

The preceding conceptualisation highlights some of the important issues that need further consideration and assessment. The framework used in this dissertation is based on ‘the concept of structures of housing provision’ but also incorporates other concepts which permit its application to the specific context of transition economies. This eclecticism is a result of an attempt to analyse a very complex and dynamic process – the transformation of home ownership in the transition from planning to markets through an evaluation of the experience of 12 countries in CEE. While the conceptual framework is an important first step towards addressing questions related to the dynamics of change in owner-occupied housing provision, the economic, social, and spatial manifestations of these processes can only be properly understood through case studies in individual local markets. Bulgaria was chosen as both a representative and conceptually appropriate case study, given its high level of home ownership, rapid deregulation of housing markets and significant level of private housebuilding. It provides an opportunity to highlight differences and similarities in the structures of housing provision between countries while employing a common conceptual framework.

Although the focus of this research is on Bulgarian owner-occupied housing markets and private housebuilding, its broader objective is to provide an analysis and

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19 The need to analyze and evaluate housing market activity, in the newly emerging market economies of eastern Europe, in a systematic manner is crucial, since it will largely determine the type and scale of residential development in both new and existing urban communities. It is also crucial that such analyses are set within their appropriate historical and political contexts, since those countries are at different stages in the reform process and each has adopted some distinct strategies (UN Human Settlements Division, 1994). Therefore the case study approach is considered more appropriate since it will enable differentiation between general trends and patterns of development and locally based alternatives.
evaluation of new housing provision in the context of transition from planning to markets. The framework developed above is preliminary in character and may need a considerable refinement in subsequent research. However, it indicates the direction in which research needs to be moving in order to understand and conceptualise housing reforms in post-socialist countries. It is hoped that the analysis will assist the continuing debate on the scope and the pace of future reform efforts and will define economically and socially efficient solutions to existing housing problems.

The review of the literature and the preceding conceptualisation enable the formulation of several propositions which guide the research. They are stated according to the key findings in the literature on housing reforms in CEE and can be disaggregated in a series of research questions capturing the transformation process and the diverse experiences in national and local contexts.

The emerging nature of post-socialist home ownership involves different forms and types of relationships. Restructuring of the tenure reflects competition among key private and public actors in the housing market and the broader economic environment in which that competition takes place. What are the market outcomes? How is the housing status of home owners affected? What is the overall impact of housing reforms on home ownership? Is it becoming a more differentiated and polarised type of tenure?

The transition from a centrally-planned to a market-based housing system leads to greater diversity in the forms of new owner-occupied housing. New actors have emerged, new roles have been assigned to traditionally involved institutions, and new strategies have been developed. These actors and institutions reshape the structures of housing
provision responding to changes in the legal and financial framework of home ownership. Which are the dominant forms of private housing provision and why? What is the significance of speculative housebuilding? Who are the private sector actors and what types of social and economic relationships emerge in the housing market?

Housing markets in the capital cities and high growth urban centres experience a process of pronounced market differentiation, thus increasing local inequalities and the gap between house prices in inner cities and peripheral housing estates. What is the impact of these processes over the spatial pattern of new construction and the organisation of the housing development process?

In a demand driven housing system consumer preferences and choices largely determine the type, location and size of newly built housing. Changes in demand indicate a growing focus on inner city living, more diversity in the housing product and a preference towards traditional materials and construction methods. Is private housebuilding capable to meet these expectations and deliver better quality housing compared to its public counterpart?

House price inflation seems to be endemic in post-socialist markets. It reflects the sharp increases in land and construction costs, but also high interest rates, economic instability and high general inflation. How will house price inflation affect demand for owner-occupation and the price and the quality of new housing?

The correlation between house prices and average earnings is high. What are the linkages between rising house prices, escalating building costs and declining
housebuilding on one hand, and affordability on the other? Is there a crisis in the owner-occupied market?

Increasing differentiation in the market place offers considerable opportunities to private housebuilders. Depending on local demand/supply imbalances, housebuilders identify gaps in the current supply where the relative price of a particular type of housing is comparatively high and potential competition low. This is the framework within which promotion, land acquisition and production are organised. What strategies for marketing, financing and risk management have emerged in the housing markets? Is private housebuilding efficient? Which are the key factors which currently discourage the efficient operation of the industry and contribute to its instability?

Using the conceptual framework developed above, the following chapter provides a systematic evaluation of housing reforms in CEE and explores the impacts of those processes on the structures of owner-occupied housing. First, it examines the legacy of home ownership under state socialism focusing on promotion, production and allocation of housing. Second, it highlights similarities and differences among CEE countries with respect to the privatisation of housing, deregulation of markets and restructuring of the housing industry. Third, changes in the forms of owner-occupied housing provision are examined to identify the new institutions and relationships involved in these emerging markets.
Understanding the performance of housing markets, policy and institutional changes in the housing sector in the transition economies, requires an evaluation of both the historical context of housing policy and the current macroeconomic situation. This chapter initially sets that framework by examining the new macroeconomic conditions and trends in each country in CEE, and then assesses the legacy of the socialist system in place before the reforms in 1989. Attention then turns to key aspects of the reform process which affect owner-occupation such as: privatisation of public housing, deregulation of prices and housing markets, restructuring of subsidies and reform of housing finance. The analysis then focuses on an evaluation of the impact of those measures on the changing structures of housing provision.

3.1 THE MACROECONOMIC ENVIRONMENT

In the 1989-1995 period the transition countries underwent structural reforms associated with privatisation of their centrally-planned economies, and specifically with institutional, banking and financial reforms. The adjustment of the transition economies, enterprise restructuring and collapsing trade among the socialist countries considerably affect the macroeconomic characteristics of emerging housing markets. During the early 1990s all countries in the region experienced a significant decline in economic output. However, in 1995 positive economic growth was reflected in the annual rate of GDP growth which increased by about five percent on average (Table 3.1). Despite that progress the GDP is still below the 1989 values. The fastest growing economies, based on GDP, in 1995 are Albania, Croatia, the Czech and Slovak Republics, Estonia and Poland.
This growth is being driven by expenditures on infrastructure development, reform of the financial sector, lower real interest rates, and rising export-related activities (EIU, 1995).

Table 3.1: Major macroeconomic indicators in CEE

<table>
<thead>
<tr>
<th></th>
<th>Growth in real GDP(^2)</th>
<th>Real GDP(^1)</th>
<th>GDP per head, 1995(^1)</th>
<th>Consumer Prices %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1994(^3)</td>
<td>1995(^3)</td>
<td>1995=100</td>
<td>n/a</td>
</tr>
<tr>
<td>Albania</td>
<td>7</td>
<td>6</td>
<td>74</td>
<td>n/a</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>1</td>
<td>3</td>
<td>75</td>
<td>4,744</td>
</tr>
<tr>
<td>Croatia</td>
<td>1</td>
<td>5</td>
<td>71</td>
<td>4,773</td>
</tr>
<tr>
<td>Czech</td>
<td>3</td>
<td>6</td>
<td>86</td>
<td>9,516</td>
</tr>
<tr>
<td>Estonia</td>
<td>-3</td>
<td>6</td>
<td>66</td>
<td>4,375</td>
</tr>
<tr>
<td>Hungary</td>
<td>3</td>
<td>2</td>
<td>86</td>
<td>6,694</td>
</tr>
<tr>
<td>Latvia</td>
<td>2</td>
<td>1</td>
<td>54</td>
<td>3,330</td>
</tr>
<tr>
<td>Lithuania</td>
<td>2</td>
<td>3</td>
<td>41</td>
<td>4,043</td>
</tr>
<tr>
<td>Poland</td>
<td>6</td>
<td>6</td>
<td>99</td>
<td>5,542</td>
</tr>
<tr>
<td>Romania</td>
<td>4</td>
<td>4</td>
<td>84</td>
<td>4,327</td>
</tr>
<tr>
<td>Russia</td>
<td>-13</td>
<td>3</td>
<td>55</td>
<td>4,224</td>
</tr>
<tr>
<td>Slovakias</td>
<td>5</td>
<td>6</td>
<td>85</td>
<td>6,524</td>
</tr>
<tr>
<td>Slovenia</td>
<td>6</td>
<td>5</td>
<td>93</td>
<td>10,611</td>
</tr>
<tr>
<td>Ukraine</td>
<td>-23</td>
<td>-2</td>
<td>40</td>
<td>1,989</td>
</tr>
</tbody>
</table>

Notes:
1) $US at purchasing power parities (PPP)
2) Percentage of change over preceding year. The reported values of GDP are based on official estimates from the national statistical offices of each country and as a result are considered to contain inaccuracies. It is recognised that GDP figures have generally over-estimated the declines in output and under-estimated the more recent recovery.
3) Percentage of change over preceding year. The 1995 data is based on EBRD projections.


We would expect those differences in economic performance to be mirrored in the new housing market realities. A commonly used measure for economic well-being is per capita GDP. In general, in those CEE countries with highly volatile economies and
unstable exchange rate regimes, the conversion of GDP from local currency into dollars raises certain problems, so those estimates shown in Table 3.1. need to be interpreted cautiously. According to World Bank standards most of those countries fall into the group of “lower middle-income economies”. The Czech Republic, Hungary and Slovenia, however, have GDP per capita high enough to qualify as “upper middle-income” economies (WB 1996). Indeed, the early years of transition were marked by real declines in living standards, rapidly increasing poverty, unemployment\(^1\) and consequently low demand for housing, particularly in the “lower middle-income economies”.

The growth of *private sector share* in GDP is a good indicator of progress in the overall privatisation process. The Czech Republic and Estonia were most advanced on this path, with private sector share of GDP in 1995 over 60 percent. Least advanced countries, on the other hand, exhibit figures for private sector share of GDP in the range of 35 to 40 percent. *Inflation* continues to be a persistent but increasingly less severe problem for most transition economies. Over the past few years, inflation — measured by annual changes in consumer prices — has fallen sharply in several CEE countries, from several hundred at the start of the macroeconomic reforms to less than 40 percent in 1995. This region-wide decline in inflation can be attributed to drastic improvements in the management of fiscal and monetary policy, the phasing out of consumer and enterprise subsidies, and government expenditure reductions. However, these drastic anti-inflation measures have brought high interest rates, often with negative consequences for

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\(^1\) Unemployment during the transition rose sharply in all CEE countries. By the end of 1994 registered unemployment exceeded 10 percent in all of CEE except the Czech Republic. Long-term unemployment increased rapidly, particularly in countries such as Bulgaria, Romania, Slovakia, Slovenia where more than 45 percent of the unemployed have been out of work for more than one year (EIU 1995).
the local economies. In 1995, the first countries to reduce inflation to single digits since the beginning of the transition to market economy were Albania, Croatia, the Czech and Slovak Republics and Slovenia. Double-digit inflation in the range of 22 percent to 36 percent was recorded in 1995 for the Baltic States, Hungary, Romania and Bulgaria. While a sharp decline in the rate of price increases has been seen in many of the countries of CEE, inflation continues to race in both Russia and the Ukraine. Both countries registered inflation rates of well over 100 percent in 1995 which has a devastating effect on their economies. These developments reflect the immense diversity in the regional economic structure and the different competitive advantages of the newly emerging market economies.

Further detailed discussion on the relationships between macroeconomic developments and the housing sector is beyond the scope of this research. Nevertheless, and despite the complexity of those interlinkages in general, and in transition economies in particular, several general statements relevant to the study that follows can be made. The housing sector is particularly sensitive to pressures created by economic recession and high inflation. Economic development in CEE measured by key indicators such as annual changes in GDP and CP indicates a difficult process of macroeconomic transition from planning to markets. Within that context one might expect that economic liberalisation and structural adjustment certainly increase competition and enable the operation of housing markets, but make price stabilisation more uncertain. Current fiscal and monetary policies, as well as the prolonged economic recession, have contributed to decreasing levels of state and private investment in housing. Not surprisingly,
housebuilding in CEE has collapsed. Housing demand has also contracted as a result of high interest rates, unemployment and slow wage readjustment. In fact, the economic crisis in the region has affected the performance of housing markets considerably and has made reforms much more difficult. To summarise, two critical issues emerge: first, housing reforms and market outcomes in the home ownership markets between countries in CEE reflect diverging experiences in economic stabilisation and growth; and second, those market outcomes are context dependent and represent the legacy of the former socialist housing system. The following section examines and defines salient characteristics of home ownership under state socialism.

3.2. HOME OWNERSHIP UNDER STATE SOCIALISM

Understanding the changing structures of housing provision in transition economies in the early years of housing reforms requires an in-depth understanding of the legacy of the socialist housing system, its principles and main structural characteristics. The first and important point to emphasise is the diversity of housing supply and quality among the former socialist countries and among cities within the same country. Variations in housing delivery systems result in diverse tenure patterns and structures of housing provision. The diversity also reflects changes in housing policies, political priorities, social attitudes. Not surprisingly considerable variations within the “socialist housing model” existed in the former socialist countries which were demonstrated in their diverging housing experiences in the 1980s. However, the following analysis will
identify only the dominant characteristics and similarities in structures of housing provision with respect to owner-occupation.

The essence of the socialist housing system\(^2\) was very substantial and comprehensive state control over the operation of the housing sector. Until 1990 the state had a strategic responsibility for the entire housing system in former socialist countries. State institutions, enterprises and government agencies had a key role in the planning and production of housing. Economic management of the system was accomplished through central planning. The balance between central control and local initiative on behalf of housing authorities and individuals has varied over the years, but one common feature was central determination of major investment decisions, explicit control over the allocation of resources, and regulation of the process of housing production and distribution. Here we examine four dimensions of this process in the socialist countries: 1) access to home ownership, 2) housing production, 3) subsidies and housing costs, and 4) levels of home ownership and property rights.

*Access to home ownership* was strictly controlled by local housing authorities and/or industrial enterprises. Units were allocated through a socialist administrative method of distribution in accordance with housing need, but regardless of income. The consumption of housing was restricted in accordance with national standards, which set maximum living space per person and household, taking into account household structure and number of children. Housing was a constitutional right, but households could own only one dwelling and could exchange it only with the approval of the local housing

\(^2\) This section uses the East European housing model developed by Hegedüs and Tosics (1992) but elaborates it further to capture the impact of socialist housing ideology and principles on the owner-occupied housing provision.
authority. Success in queuing was a crucial factor in obtaining a unit. There were chronic shortages of housing in high growth urban areas in particular, and plenty of evidence that households were inadequately housed (Koleva and Dandolova 1992, Michalovic 1992, Sillince 1990, Struyk 1996). An example of urban housing shortages is the so-called 'hidden homelessness' demonstrated in the high percentage of households sharing accommodation with parents or relatives, not to mention a waiting period of 10 - 15 years to buy housing in large urban areas. Housing was sold at the discretion of local housing authorities or enterprise committees at nationally fixed and uniform prices. Under those circumstances consumers, not surprisingly, had little choice over the type and size of the units, their location and quality.

In the former socialist states state monopoly over housing production meant a highly centralised institutional, administrative and financial system for new housing supply. State tariffs were adopted which set the prices of basic housing inputs — for land, building materials, labour and the dwelling itself. Housing production was highly industrialised and concentrated in large-scale construction firms. In attempting to solve housing problems present since the 1970s, however, some governments deliberately expanded the share of a 'market sector' operating within the state-controlled housing system. Housing co-operatives and individuals in Bulgaria, Poland, former Czechoslovakia, and Lithuania were permitted to provide housing for their own consumption. Thus, some responsibility for housebuilding was shifted to individual households, mobilising personal resources and labour.
Despite the official recognition of the importance of housing co-operatives and individuals in the housing provision system, they were discriminated against in getting access to land, housing finance and in negotiating contracts with construction enterprises\(^3\). A systemic bias against the private sector led to substantially higher housing costs for consumers. Thus, the market that served as a secondary mechanism in the housing provision system, a market that allowed access to privately developed housing, actually increased housing inequalities (Hegedüs and Tosics 1996, Tsenkova 1994).

Socialist policy with respect to subsidies was extremely costly to the state budget, as the system was built on maintaining low housing costs to consumers and a corresponding low wage level. The level of subsidies to cover the gap between the nationally regulated, low house prices and the actual construction costs was constantly growing. While it is difficult to obtain comparative data throughout the CEE countries, housing subsidies were estimated to account for 10 to 14 percent of the total government budgets (Hegedüs et al. 1996). Owner-occupied housing was subsidised in a number of ways. First, the interest rate on mortgages was low, varying between 0.5 to 3 percent. Second, building costs were reduced by production subsidies transferred to state-owned enterprises from the central budget. Housing was sold to individuals according to state tariffs with little variation of the price per square meter. Third, utility charges (water, sewerage, heating, electricity and gas) were heavily subsidised at rates of between 70 - 80

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\(^3\) Households were restricted to use state construction enterprises, but work on these projects was often not included in the five year plans and therefore happened to be a low priority. Often such projects were delayed for years, households had to find alternative ways to supply building materials, contract labour ‘privately’ or become involved in the labour intensive finishing works on a self-help basis. In Bulgaria, for example, the construction costs in privately promoted housing per sq.m. were 70-90 percent higher compared to the official estimates.
percent; on average national budget subsidies for utilities represented about five percent of GNP in 1990 (Dübel and Tsenkova 1997).

As a result of this substantial subsidy input and macroeconomic regulation of prices, the monthly housing costs in the owner-occupied sector (utilities and mortgage payments, but no expenditure on maintenance)\(^4\) were less than four to five percent of household income. Home ownership was universally affordable, however access was controlled by municipal and/or state housing authorities. Low costs, however, contributed to distribution inefficiencies and overconsumption at the end of the family life cycle, which in turn exacerbated housing shortages.

*Socialist tenure structure* was quite diverse, which is reflected in the large variation in the levels of home ownership. Countries such as Russia, Estonia and Latvia had an extremely high share of state controlled housing (municipal and enterprise-owned); in contrast others, such as Bulgaria, Hungary and Romania, had over 70 percent of their stock in private ownership. The nature of private (including co-operative) ownership also varied from country to country; the reasons for this wide variation reflect differences in investment patterns, organisation of production and levels of state support. Despite those regional variations the state gradually encouraged and financially assisted private ownership over the housing stock, particularly in the late 1970s and early 1980s while retaining control over the access to and exchange of housing. It should be noted that levels of home ownership were close to 90 percent on average in rural areas, while

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\(^4\) By comparison rents were typically less than 3 percent of the household budget. Being a state tenant was economically much more attractive than being an individual owner who bore all the maintenance costs.
state-owned housing was mostly concentrated in urban areas. Cities such as Moscow and St. Petersburg had almost a 100 percent public ownership of their housing stock. Kiev had 80 percent and Budapest had 70 percent. Private renting was marginal and virtually non-existent in most of these countries.

The lines between ownership and rental, private and public, are often fuzzy under socialist systems. Housing was a constitutional right, but ‘the bundle of rights’ was limited to the personal consumption of housing, while excluding the privilege to derive income from the sale or rent of owner-occupied housing (Marcuse 1996). In principle home ownership under state socialism was associated with the following rights: guaranteed lifetime occupancy, the right to inherit or transfer housing to family members, provided that they were registered with the local housing authority, and the right to rent parts of the unit at controlled prices. Home owners could transfer or sell their property (land and housing) with the approval of the local authorities, but only at a centrally pre-determined price. In some countries households had to arrange for disposal of a second dwelling acquired through inheritance or marriage. There was virtually no residential mobility in the region; once allocated, housing was rarely exchanged or sold. Differences existed between owners of single-family housing and condominiums. Home owners in condominium type of housing had ownership over the units, as well as a share of the common space, roof, and land. However, in the new housing estates state-built flats were often sold to households without exclusive ownership over the land.

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5 By comparison public sector tenants had substantial rights including: guaranteed lifetime occupancy, no eviction without compensation with another unit and the right to inherit or transfer housing to family members, provided that they were registered with the local housing authority. In Hungary, Bulgaria, Poland and former Czechoslovakia tenants were allowed to exchange flats.
3.3. HOUSING REFORMS AND HOME OWNERSHIP

The transition to market-based housing systems has followed different reform paths and these have been evaluated in a systematic manner in the literature (Baross and Struyk 1993, Dübel and Tsenkova 1997, Hegedüs et al. 1996, Renaud 1995, Struyk 1996). After the political changes in 1989, various reform initiatives were carried out by successive governments aimed at establishment of a market-based housing sector. In order to facilitate this process, corresponding changes were introduced in the legal, financial and institutional frameworks which governed the operation of housing systems.

In CEE housing sector transformation focused on introducing enabling policies strengthening market forces and reducing state intervention. Such policies have promoted deregulation, increased the role of private sector institutions and reduced public expenditure. In terms of ownership, the reform centred on privatisation of public assets, and more specifically the sale of public rented stock and state construction/maintenance enterprises. Reform strategies have been very diverse throughout the region, and, given the legacy of different housing systems in which they were implemented, have produced different sets of outcomes. Risking oversimplification, the following analysis will focus on the most significant reform measures transforming home ownership. These include:

- privatisation of public and co-operative housing
- deregulation of prices and restructuring of subsidies
- reform of housing finance

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6 Reforms were motivated by pressures to reduce budget deficits and to move away from macro regulation and direct subsidization of housing supply to a market-oriented housing system. In the context of fiscal constraint, this was seen as an economically attractive and feasible alternative.
• privatisation of state construction enterprises.

The main objective of the analysis is to identify the impacts of these housing policy reforms on the changing structures of housing provision.

3.3.1. Privatisation of public and co-operative housing

Privatisation of public housing has contributed to the dramatic growth of home ownership in the transition period. A number of privatisation forms have been implemented: privatisation of public housing, restitution of nationalised property and conversion of co-operatives into condominiums (Clapham et al. 1996). Each of these forms will be explored in greater detail below.

Public housing was sold to existing tenants, but in some cases to private companies. Political debate has mainly focused on the price at which dwellings should be sold and different strategies have emerged. They can be grouped into the following categories: voucher privatisation (Estonia, Latvia, Lithuania), privatisation free of charge (Armenia), low-price privatisation (Bulgaria, Hungary, Romania, Slovenia), and a mixed high- and low-price strategy, where a fixed amount of living space is provided free, but high prices are charged on any extra space (Russia, Ukraine). Most CEE countries have adopted the low-price strategy. In the “give-away” privatisation, low sales prices, typically less than 15 percent of the market value of the housing unit, created a flood of sales. Privatisation certainly influenced voters to support economic reforms in most

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7 Privatization progressed rapidly in Bulgaria, Hungary, Lithuania, Romania and Poland. In Russia, Ukraine and Estonia sales have been quite slow at the beginning due to the lack of clarity in the policy framework and inefficient administration. However, housing privatization has gained considerable support in the 1993 - 1995 period in all transition economies. There is no consistent up-to-date information to evaluate those trends after 1994.
countries (or followed the political independence of the Baltic States from the control of the former Soviet Union). This transfer of wealth from the government to the people was clearly very popular. Households acquired a stake in the market system, while central and municipal governments saw privatisation as a way to delegate maintenance responsibilities and eliminate the burden of growing subsidies. There was also a consensus that home ownership would change the attitude of residents and generate private investment in the upgrading of the buildings and the units.

The extent of sales has varied considerably both within and between countries in response to political and economic conditions, but largely as a result of specific privatisation policies. Under those policies a massive transfer of public housing has been recorded. More than 3 million flats have been sold to sitting tenants in CEE countries and 300,000 restituted to their previous owners. Details on tenure transformation are presented in Table 3.2. Regarding the size of ownership transformation since 1990, the leaders are Lithuania, Russia and Slovenia, with over twenty percent of their housing turning into private ownership in four years. Starting from lower levels of public ownership, Hungary and Bulgaria sold between 3-9 percent of their housing stock. By contrast, Latvia and Estonia displayed a much slower pace with sales to tenants in the range of 9-17 percent from 1990-1994. The process was rather slow in the case of the Czech Republic and Poland, where less than 5 percent of the housing was sold.

8 The leading Western example on housing privatisation is Great Britain, where 30 percent of the public housing has been sold to tenants within 15 years. By contrast, CEE countries privatised close to 31 percent of the stock with 4 years. One should also consider the fact that the process has gained momentum and continues in most of the countries.
Table 3.2: Tenure change in selected transition economies 1990 to 1994

<table>
<thead>
<tr>
<th></th>
<th>Bulgaria</th>
<th>Czech Republic</th>
<th>Estonia</th>
<th>Hungary</th>
<th>Latvia</th>
<th>Lithuania</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rental sector</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public</td>
<td>10.3</td>
<td>8.3</td>
<td>-2.0</td>
<td>40.9</td>
<td>38.4</td>
<td>-2.5</td>
</tr>
<tr>
<td>Private</td>
<td>8.1</td>
<td>5.0</td>
<td>-3.1</td>
<td>29.6</td>
<td>27.6</td>
<td>-2.0</td>
</tr>
<tr>
<td>Other*</td>
<td>2.3</td>
<td>1.0</td>
<td>1.3</td>
<td>0.9</td>
<td>4.7</td>
<td>3.8</td>
</tr>
<tr>
<td>Owner-occupied</td>
<td>88.7</td>
<td>91.7</td>
<td>2.0</td>
<td>40.3</td>
<td>42.2</td>
<td>1.9</td>
</tr>
<tr>
<td>Other**</td>
<td></td>
<td></td>
<td></td>
<td>18.8</td>
<td>19.4</td>
<td>0.6</td>
</tr>
</tbody>
</table>

|                  |            |        |        |            |        |        |            |        |        |        |            |        |        |
| Rental sector    |        |        |        |        |        |        |        |        |        |        |        |        |
| Public           | 22.0   | 14.0   | -8.0   | 78.0   | 61.0   | -17.0  | 51.4   | 12.9   | -38.5  |        |        |        |
| Private          | 22.0   | 13.0   | -9.0   | 64.0   | 54.0   | -10.0  | 51.4   | 12.9   | -38.5  |        |        |        |
| Other*           |        |        |        | 0.0    | 5.0    | 5.0    |        |        |        |        |        |        |
| Owner-occupied   | 78.0   | 86.0   | 8.0    | 22.0   | 39.0   | 17.0   | 39.1   | 87.1   | 48.0   |        |        |        |
| Other**          |        |        |        |        |        |        | 9.4    | 0.0    |        |        |        | -9.4   |

|                  |            |        |        |            |        |        |            |        |        |        |            |        |        |
| Rental sector    |        |        |        |        |        |        |        |        |        |        |        |        |
| Public           | 49.1   | 44.1   | -5.0   | 22.4   | 11.0   | -11.4  | 74.0   | 54.1   | -19.9  |        |        |        |
| Private          | 29.7   | 25.4   | -4.3   | 21.1   | 7.8    | -13.3  | 70.0   | 45.1   | -24.9  |        |        |        |
| Other*           | 5.2    | 5.2    | 0.0    | 1.0    | 3.0    | 2.0    |        |        |        |        |        |        |
| Owner-occupied   | 14.2   | 13.5   | -0.7   | 0.3    | 0.2    | -0.1   | 4.0    | 4.0    | 0.0    |        |        |        |
| Other**          | 40.2   | 41.7   | 1.5    | 76.1   | 88.9   | 12.8   | 26.0   | 41.0   | 15.0   |        |        |        |

|                  |            |        |        |            |        |        |            |        |        |        |            |        |        |
| Rental sector    |        |        |        |        |        |        |        |        |        |        |        |        |
| Public           | 27.3   | 26.0   | -1.3   | 31.6   | 8.9    | -22.7  |        |        |        |        |        |        |
| Private          |        |        |        |        |        |        |        |        |        |        |        |        |
| Other*           |        |        |        | 0.5    | 0.5    |        |        |        |        |        |        |        |
| Owner-occupied   | 50.2   | 52.1   | 1.9    | 68.4   | 87.7   | 19.3   |        |        |        |        |        |        |
| Other**          | 22.5   | 21.4   | -1.1   |        |        |        |        |        |        |        |        |        |

*mainly cooperatives, public enterprises, associations.

**mainly mixed ownership, other non-classifiable.

***Russia: "Owner-occupied" incorporates private property of citizens, i.e. private rental is underestimated.

Reportedly co-operative housing proved much more difficult to privatise, since co-operatives also owned other assets (e.g. agricultural and industrial plants, equipment, etc.). The Czech and Slovak Republics and Poland also required a condominium association to be established and a minimum share of tenants in the building to express their willingness to privatise the units before the process could be initiated (Sykora 1996, Kingsley and Mikelsons 1996).

Apart from Russia, Estonia and Croatia where restitution has not been an issue, in all other countries households had the opportunity to seek the return of property nationalised by the communist regimes. Restitution had a profound impact on the inner parts of towns and cities of the Czech Republic, Estonia, Latvia and Lithuania. As of 1994 restitution in the Czech Republic, Latvia and Lithuania has affected 6.8 - 9.5 percent of the public housing stock. The share is lower in other countries, but still quite significant in Bulgaria (5%), Albania (3.6%), Slovenia (2.2%). Restitution was not handled uniformly. In Romania, legislation was delayed by 4-5 years. In Hungary owners were compensated through vouchers.

Converting co-operatives into condominiums is another aspect of privatisation most common in the former Czechoslovakia and Poland where a relatively large co-operative sector had developed. Co-operatives are obvious targets for privatisation, as members have already contributed towards their housing costs and the sums of money needed to complete the purchase can be small for long-term members with a low

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9 In the former Czechoslovakia, legislation was passed in 1992 to allow occupiers of co-operative flats to apply for ownership of the flat and to repay the co-operative a proportion of the outstanding debt. Buyers also became joint owners of the common areas of the house, with their stake in proportion to the floor space of their flat. Similar legislation was proposed in Poland in 1993.
outstanding debt. However, other legal and organisational difficulties have slowed down the actual sales in those countries.

The discount policy in the transfer of public housing has given rise to concerns about the redistribution of wealth in transition countries. While the general view is that privatisation has shifted considerable wealth towards housing consumers and increased their power and control over decision-making, it has also increased social inequalities in housing. Uniform sale prices allowed privileged households to acquire considerable wealth through the purchase of good quality housing in attractive location at an insignificant cost. Among the losers are typically households in the queue waiting for housing, but also those with a low or even negative value of their dwelling as a result of inferior quality requiring high repair and maintenance costs.

3.3.2. Deregulation of Prices and Restructuring of Housing Subsidies

In the general restructuring of the socialist housing system along market principles, the administrative distribution of housing has been replaced by market allocation and restrictions on housing consumption have been abolished. More importantly, reforms have dramatically expanded individual property rights in real estate, permitting free property transactions at market prices. Perhaps the most significant change in regional housing policies in the last five years has been the emergence of competitive property markets. Housing and land markets, as a new reality, have substantially altered traditional perceptions of housing supply and demand. That has encouraged the introduction of new forms of housing provision and new relationships
between public and private agencies with respect to a wide range of services for home owners. Though it is difficult to generalise, liberalisation of prices in most CEE countries resulted in an initial jump in price levels and in construction costs of 10 - 15 times compared to 1989 levels. Further price increases followed the elimination of production subsidies, deregulation of housing finance and have continued to keep pace with the high inflation. Macroeconomic regulations related to house and land prices were also abolished in most countries. The positive effect of this deregulation was the elimination of long-standing shortages of basic inputs for housing construction and renewal; the negative effect has been escalation of prices and speculation.

Rapid economic and political reforms are also dramatically restructuring the flow of funds through the housing system. After the liberalisation of prices in 1990, housing-related subsidies were growing rapidly\(^\text{10}\). At the same time economically constrained governments in the region were under pressure to reform housing budgets. With respect to home ownership four types of changes in the flow of funds through the housing system can be distinguished: 1) a sharp contraction in overall public investment in new housing construction, 2) the elimination of production subsidies, 3) large cuts in subsidies towards energy and other utility costs, and 4) the elimination and/or reduction of subsidies for homeowners though lower interest rates on mortgages.

In most CEE countries, due to fiscal constraints, housing subsidies continue to be reduced. In addition, subsidies have become more targeted as opposed to universally

\(^{10}\) In Hungary, total aid for the housing sector reached 6 percent of GDP by 1989; in the Czech Republic it accounted for 5.3 percent of GDP in 1990 compared to 3 percent in Poland and 7 percent in the Baltic States.
accessible. As of 1995, most of the fiscal assistance will be designated for operation and maintenance of the existing public stock, for subsidising mortgage interest rates on ‘old loans’ issued before 1990 and for savings in earmarked housing accounts. The restructuring of subsidies has contributed to the sharp decline in housing output, but also to the general decrease of capital investment in the sector.

Figure 3.1: Housing investment as a percentage of GDP

![Graph showing housing investment as a percentage of GDP](source: EBRD 1995, MRI 1996)

As Figure 3.1 indicates there has been a significant decline in the level of housing investment in most transition countries, despite some positive developments in the Czech

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11 New transfers have emerged, such as deductibility of mortgage interest or savings premiums for contract savings in the Czech Republic and Slovakia (under discussion in Hungary and Poland). Hungary and Bulgaria gave borrowers the option to repay outstanding mortgages issued prior to 1989 at below market interest rate. Though more than three-quarters of the loans in Hungary were paid off (Stuyk 1996), on-budget subsidies continue to exist. Slovenia restructured its housing finance system in 1987 introducing variable interest rates. So lenders suffered large loses before the transition (Mandic and Stanovnik 1996).
Republic and Lithuania for 1992-1993 (or Ukraine for 1991-1992). The share of housing investment in 1994 varies between one and three percent of GDP, which is much lower compared to the 1989 levels. Russia is a notable exception with a growing housing investment close to six percent of GDP. Though housing investment differs from other investment in many ways, its decline must be evaluated against the background of a general decline in total fixed investment since 1989. An analysis of EBRD reveals that in CEE countries housing investment has gained on average 1.5 percent against other sectors for 1989 to 1993. The variation among countries is large, ranging from a loss of 5 percent in Romania to a gain of 10.3 percent in the Russian Federation (Dübel and Tsenkova 1997).

3.3.3. Reforms of Housing Finance

The absence of a well-developed system for housing finance is a major constraint for the efficient operation of actors and institutions in housing markets. In general, financial deregulation since 1990 has lead to liberalisation of interest rates on housing credits and mortgages. There is an immense diversity in mortgage rates across the countries (Figure 3.2). Although there has been a decline in mortgage rates across CEE countries, a consequence of region-wide decline in inflation and strict monetary policies, interest rates in the range of 20-35 percent most certainly discourage borrowing. Rates decreased dramatically in Latvia, Lithuania, Romania and Slovenia. Despite this progress mortgage activity is very slow. Lending has been structurally paralysed in the early years of the transition. Most countries in the region still lack financial systems which operate
within fully integrated and competitive financial markets. Housing finance is a privilege of specialised institutions – state or private – whose activities benefit from special fiscal and regulatory frameworks (Renaud 1996a).

Figure 3.2.: Bank lending rates in selected transition economies

Source: IMF 1996

There have been attempts to create a market-based housing finance system. In Slovenia for example, a national housing bank has been created with funds derived from the sale of state properties. In the Slovak Republic, the first building society was started in 1992. It operates a system of personal savings which lead to preferential loans for house purchase. The state also makes a contribution. In Bulgaria, all banks were allowed to lend mortgages in 1989 but by 1992 virtually none had done so. Housing finance in Russia is still a monopoly of Sberbank, though all banks are authorised to open accounts
for the purchase of housing. In Poland a special Mortgage Fund has been established with loans from the World Bank and the European Bank for Reconstruction and Development and with funds guaranteed by the Polish and US Governments. Two institutions are administering the Fund: Bud-Bank and the Polish American Mortgage Bank. A contract saving scheme has been introduced in the Czech and Slovak Republics, Poland and Hungary. The contract saving scheme is modelled after the German Bausparkassen. It operates as a closed system of deposits loaned back to savers for the purchase of a home. Mortgages have a below market interest rate compensated by lower return on savings. Governments also subsidise savings to make the system more attractive to consumers (a premium up to a fixed amount per year in the case of minimal saving time three to four years).

Despite these initiatives, the volume of loans issued every year is very small due to an inability to mobilise funds and manage the variety of financial and operational risks inherent in long-term housing finance. During the early years of transition, the risks of mortgage lending were substantial. Credit risk is still a primary concern due to high inflation, and to the lack of clarity regarding property rights over land and buildings. The high bankruptcy rate of private house-building firms also contributes to this situation of uncertainty. Collateral lending is also a problem because of the legacy of poor land titling. Stable and sound land use systems with improved registration are slowly emerging. New foreclosure laws need to be drafted and implemented. Long-term lending

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12 Some commercial banks are already carrying out housing finance activities, ranging from simple construction loans to the management of large projects in which they integrate development, financing and construction. However, these activities to date have been sporadic and quantitatively insignificant (World Bank, 1995).
for housing creates significant liquidity risks, and market risk. The instruments and financial markets to manage these risks are only now starting to function in the countries most advanced in the reform process.

3.3.4. Privatisation of Construction and Maintenance Enterprises

Privatisation of the system of housing production in CEE has accompanied tenure change. The privatisation of construction and maintenance enterprises has been undertaken in all CEE countries although at varying paces and in different ways. It has, however, primarily been regarded as an industrial rather than a housing measure. Models of privatisation adopted have been based on those employed in other industrial sectors, such as employee buy-outs or the creation of large state investment funds to hold shares. Other means include the sale of enterprises to foreign investors or other interests, and voucher privatisation (WB 1996). The privatisation of large-scale, vertically-integrated, state-owned construction enterprises — kombinats — is almost complete in the Czech and Slovak Republic and Hungary, and to a large extent in Poland, Slovenia, Estonia.

Parallel to privatisation, a restructuring of the state construction industry has also proceeded decisively in most countries in the region. New firms — public or shareholding companies — have emerged from the original vertically integrated organisation, new units have formed around core activities with the potential to operate in less bureaucratic ways and to be profitable. Their staff size varies between 20 and 500, with a new average size of 200 employees. In nearly all countries the surviving kombinats have privatised themselves, a notable exception is Bulgaria where those firms were caught in the general
postponement of industrial privatisation. Despite various problems, former state enterprises recast as private entities have achieved considerably greater production flexibility and management efficiency through restructuring of the production process and downsizing. Struyk (1996) argues that the structural change is also accompanied by efforts to offer housing products with different characteristics compared to the old concrete panel design.

In many countries, including Russia, the competitive restructuring of some of the building material enterprises has been proceeding faster than that of construction organisations themselves. This is partly due to the nature of their products, which have found new export markets. Barter trade of building materials has played an important role in some economies undergoing high inflation.

The discussion above has highlighted the critical differences between socialist and market-oriented housing provision in transition economies in a comparative perspective. Although reform paths in the 12 CEE countries have been diverse, deregulation of prices, and privatisation of housing services in particular, have set the scene for the operation of housing markets and market institutions. Many of the reforms in the first stage of transition from central planning to markets represent important components of the long-term structural adjustment of the housing sector and have crucial implications for the restructuring of owner-occupied housing provision. For example, privatisation of public housing has lead to rapid growth of home ownership in CEE and has provided an important upsurge to housing markets, particularly in Lithuania and Russia where home ownership under state socialism was marginal. The privatisation of
the construction industry has facilitated the emergence of a more competitive, demand-driven supply of new housing. The restructuring of subsidies and the flow of funds through the housing system, largely imposed by the economic crisis, have created a new fiscal reality in which prices more closely reflect real housing costs. Many other aspects of reforms, both on the supply and the demand side, have changed home ownership profoundly. In general terms, the politics of privatisation in CEE represent a different approach to housing emphasising private ownership, market allocation and considerably reduced subsidies for the provision of new housing.

3.4. CHANGING STRUCTURES OF OWNER-OCUPIED HOUSING PROVISION

The radical change of relationship between the state and the market during the transition period has modified the existing forms of owner-occupied housing provision and has set a new framework for the operation of key actors and institutions. The marketisation of housing has lead to a growing diversity in the structures of housing provision and to a multiplicity of new private sector actors and institutions replacing the former socialist, state-owned. The following analysis applies the concept of structures of housing provision to explore those dynamic changes in a comparative perspective (Ball 1988, 1983). The focus is on actors and institutions who can influence the way in which the provision and allocation of owner-occupied housing is structured. Although it is recognised that consumption is important the emphasis is on the production and exchange of housing.
3.4.1. Actors and Institutions in the Provision System

The emerging housing markets in CEE are at different stages in their development and have unique characteristics. The lack of well-established regulatory institutions at the central and local level, as well as the weakness of financial institutions, contributes to the inefficiency and immaturity of these markets. Many actors and institutions are involved in the production, allocation and consumption of housing. The most significant ones in the process are: the developers (public and private institutions or individuals); the landowners; the financial institutions; the building industry (state, municipal and private); the local housing and planning authorities and the consumers. New roles and responsibilities are associated with the transformation of the housing sector along market principles. The housing provision chain model will be used (Ambrose, 1991:93) to identify the actors and institutions in the development process. The model is adapted to illustrate the impact of reforms over the provision system of owner-occupied housing in CEE. As shown in Figure 3.3, the housing provision process is divided into four stages: promotion/investment, production, allocation, and occupancy/service. Major public and private sector actors and institutions involved at each stage of the process are grouped in two separate categories representing public and private interests. The effect of the reform is the growing importance of private sector activities associated with the operation of the market.

Until recently, private sector activities (excluding self-help) were virtually non-existent in most of the countries. New actors have emerged — speculative house builders, real estate agents, private building firms and maintenance companies. Former
Figure 3.3: The housing provision system in CEE: major actors and institutions

PRIVATE

1. INVESTMENT/PROMOTION
LAND ACQUISITION/PLANNING

DEVELOPER
LANDOWNER
CO-OPERATIVES
INDIVIDUALS
REAL ESTATE AGENTS
ARCHITECTS/SURVEYORS

PLANNERS
CONSULTANTS
ENTERPRISES
PUBLIC ORGANISATIONS
LOCAL AUTHORITIES
PLANNING DEPARTMENTS

2. PRODUCTION
SITE PREPARATION
CONSTRUCTION
FINANCING

DEVELOPER
HOUSEBUILDERS
SUBCONTRACTORS
BUILDING MATERIALS DISTRIBUTERS
CO-OPERATIVES
HOMEOWNERS

PLANNING CONTROL
OFFICIALS
SUBCONTRACTORS
CONSTRUCTION COMPANIES
BUILDING MATERIALS DISTRIBUTERS
BUILDING MATERIALS PRODUCERS
STATE SAVINGS BANK

3. ALLOCATION
NON-MARKET
SALE & RESALE

MARKET

ENTREPRISE HOUSING COMMITTEES
HOUSING DEPARTMENTS
STATE SAVINGS BANK

4. OCCUPANCY/SERVICE
MAINTENANCE
MANAGEMENT
IMPROVEMENT

OWNERS
CRAFTSMEN
MAINTENANCE FIRMS
ARCHITECTS/ENGINEERS
BUILDING CONTRACTORS
PERSONAL SAVINGS

MANAGEMENT AGENCIES
INSURANCE COMPANY
SUBCONTRACTORS
CONSTRUCTION COMPANIES
MAINTENANCE COMPANIES
BUILDING MATERIALS PRODUCERS & DISTRIBUTERS
STATE SAVINGS BANK

Source: Tsenkova, 1996.
participants have received new roles and responsibilities. Major change has occurred in the distribution mechanisms, where market allocation of housing has become dominant. Decentralisation and privatisation in the production and distribution of building materials has occurred in most of the countries, though the state has kept control over the production of major building materials such as cement and steel. Both public and private developers are facing financial difficulties and great economic uncertainty. The supply of land and housing finance, the most controlled elements of socialist housing provision, have been deregulated. Governments have replaced centralised state planning, both in production and allocation, with market mechanisms. On the supply side this has resulted in a shift to private sector promotion and production of owner-occupied housing in CEE.

The nature of the building industry and the diversity of promotion/production are vital to understanding the varying nature of output between countries (Ball et al. 1988, Barlow and Duncan 1994). State construction enterprises in CEE still produce a considerable amount of housing, though their output has declined dramatically. Currently, the state industry is utilising less than 20 percent of its production capacity. Generally the ‘municipal developer’ has ceased to exist. Meanwhile the private building industry has established a considerable market presence in Bulgaria, Hungary, Poland, the Czech Republic and Lithuania. Firms are small, often badly equipped, currently holding 2 to 15 percent of the total construction industry assets, yet extremely flexible in their operation. In several countries, more specifically Hungary, the Czech Republic and Poland, privatisation of the construction sector has contributed to the dramatic
reorganisation of the housing industry\textsuperscript{13}. The speculative housebuilders in particular, build for the elite market.

The radical changes in housing markets have established a new role for private landowners. Though some of the land is still provided by public agencies (mostly the local authorities), landowners, due to a shortage of urban land with a clear title and various local planning restrictions, are in a position to charge a ‘private tax’ on development\textsuperscript{14}. In areas with severe land shortages, this ranges from 30 to 50 percent of the house price. Considerable private sector activity in the market-based housing system is focused on maintenance and renewal. A growing number of small construction firms are competing for repair and improvement contracts with the municipal maintenance firms, even in public sector housing. Important changes have also occurred in the roles of local and central institutions associated with housing. The reform process has emphasised decentralisation, deregulation and local autonomy. In the new fiscal reality local authorities are seen as ‘crisis managers’ charged with a lot of responsibilities related to the provision of infrastructure and services, but without the corresponding resources to address those problems. Thus, the central government has shifted the conflicts in housing and urban development to the local level and has created significant barriers for new housing construction.

\textsuperscript{13} In 1980, for example, 41 percent of the housing in CEE was built by the five largest developers. By 1990 this share had decreased to 31 percent and by 1994 - to 13 percent which is an indicator of industrial deconcentration and demonopolization in a very short time (Hegedüs et al. 1996).

\textsuperscript{14} Private landowners are in most cases individuals who own a small lot with old, often substandard housing. Urban renewal in socialist cities was often delayed, so some neighbourhoods in prime locations experienced considerable decline. Such situations alternatively have generated opportunities for private redevelopment of those areas in the new market driven system. Restitution of land and housing has increased to some extent the supply of urban land as well.
The most significant changes, however, are associated with the new advantages and disadvantages for the consumer in a market-oriented housing system. Personal income has become the crucial dimension of housing demand, determining access to housing with particular size and quality, defining tenure choice and future housing strategies.

3.4.2. Forms of New Housing Provision

There is a wide variety of public, private and mixed forms of new housing provision for owner-occupation in CEE countries. Their evolution depends largely on the relationship between the state and the market within a particular housing policy framework. Some can be regarded as successful and adaptable to the new political and economic reality, others will fade along with the socialist planning system. On the basis of processes and agencies related to the promotion/investment, production, access, and consumption (occupancy/service) of housing, the following major forms of owner-occupied housing provision can be identified: public/private partnerships, self-promoted housing, speculative housebuilding and self-help. Forms also determine the level of participation of key public- and/or private-sector actors and institutions, as they were identified in Figure 3.3., their social relationships and the different level of involvement in the different stages of housing provision. Considering the dynamics and adaptability to the market environment, those forms have a different market potential and offer different opportunities in specific local markets. With respect to national experiences and specific arrangements those "labels" might conceal significant variations within each form.
In the *public/private partnerships* local housing authorities initiate the majority of the housing schemes. Other developers are enterprises, governmental agencies and public organisations. Land, if not publicly owned, is acquired in accordance with an existing land-use plan and its zoning regulations. The construction process is carried out on a contract basis by local authority enterprises and/or private construction firms. Private investors, usually individual households finance a significant share of the development. Often those partnerships have evolved as a strategy to overcome shortage of construction finance in new or uncompleted projects (Kaganova 1995, Kosareva et al. 1996, Muziol-Weclawowicz 1996). Allocation of units in the ‘shared participation’ schemes is left at the discretion of local authority housing departments and other investors. Public institutions, for example in Russia, Ukraine and Poland, get involved in those partnerships through auctions of land, or uncompleted projects. In Bulgaria similar arrangements have been used to provide owner-occupied housing to ‘targeted groups’. There are significant variations in the quality, structure and type of those public/private projects. Some are built using traditional construction methods with greater involvement on behalf of future home owners, others are developed by public construction enterprises in high-rise panel structures.

*Self-promoted housing (building co-operatives)* is an alternative arrangement where members acquire home ownership status after the completion of the project. In some countries building co-operatives operate with the active support of the local authorities and acquire municipal land at below market price provided that a certain quota of social housing will be allocated within the project. The construction process is
carried out on a contract basis by a state or private firm. Co-operative members (via sweat equity) or other subcontractors are involved in the labour intensive finishing details. Funding is provided proportionally by all the parties in the project using different sources: loans, personal savings, union or enterprise funds, etc. However, due to financial difficulties, a large number of dwellings in those projects are uncompleted. Members are trading up shares on the market in order to provide alternative financing. Given the scale of development, the unpredictable economic situation and high inflation, speculative house builders are unlikely to be involved in this form of housing provision. The whole development process is difficult to control, and investment is risky.

*Speculative housebuilding* is usually a small scale undertaking which operates by linking investors with capital, land, building materials, equipment or labour. To organise the whole process from the promotion to the completion of the project requires enormous effort. In the case of condominiums, landowners acquire a share of the built units, though larger firms are in a position to buy the land. Equity financing is the dominant source of funding for multi-family and single-family housing. An amazing variety of schemes exists trying to compensate for the lack of adequate construction finance ranging from advance payment to shared participation (Struyk 1996, Tsenkova 1996). The importance of the ‘informal economy’ for this form of housing provision is constantly growing, attracting funds from unreported activities.

Condominiums have become a significant part of the housing market in urban areas. Costs are lowered through collective ownership over the land, common elements and shared maintenance. Purchasers of condominiums obtain the benefits of ownership
Arguably, the changing structures of housing provision are adapting quickly to the emerging housing markets. A set of key linkages relate the economy, the housing market and the behaviour of the residential construction sector. Therefore, it is important to consider how those linkages translate into a pattern of diverse and dynamic house prices.

In transition economies the general movement towards a market-oriented real estate sector, together with inflation, economic recession, escalating construction costs and declining house building activity, have set the scene for the operation of dynamic and diverse home ownership markets. Market transactions produce a series of outcomes which are reflected in the spatial differentiation of housing markets, house price changes and uneven investment patterns. Those processes are extremely difficult to conceptualise and evaluate in a comparative perspective. There are considerable gaps in data on emerging housing markets and investment patterns, lack of adequate and reliable information on housing markets and few precedents on which to base anticipation of trends. There are no monitoring systems in place to reflect changes in supply and demand in most transition economies. A lot more information is needed on the national and local level to analyse those dynamics processes in a systematic manner. Finally, there is an immense diversity of interpretations of how the market actually works.

This chapter provides an assessment of housing market dynamics in selected countries in CEE focusing on the emerging differentiation in home ownership with respect to quality and prices. Further the analysis examines data on house prices and
Previous analysis has identified a typology of forms owner-occupied housing provision within CEE countries. Different forms — speculative housebuilding, self-help and self-promoted housing, as well as private/public partnerships — are defined by the relations between those who initiate and control housebuilding and the other institutions and agencies that are part of the development process. The major actors and institutions - developers, builders, financial and state institutions, landlords, and housing consumers - typically result in a different set of social relationships for each form of owner-occupied housing provision. Understanding of these relationships is critical in the analysis of fundamental differences concealed under the broad label of home ownership. Differences in promotion, construction and profit distribution not only define a variety of forms in the housing provision system but also lead to differences in costs, quantity and type of housing produced.

Table 3.3: Forms of new owner-occupied housing provision in CEE

<table>
<thead>
<tr>
<th>Selected characteristics</th>
<th>Owner-occupation through public/private partnership</th>
<th>Speculative / Purchased owner-occupation</th>
<th>Self-promoted owner-occupation</th>
<th>Self-built owner-occupation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entry costs</td>
<td>medium</td>
<td>highest</td>
<td>high</td>
<td>low</td>
</tr>
<tr>
<td>Access form</td>
<td>queue/market</td>
<td>market</td>
<td>market</td>
<td>self-help</td>
</tr>
<tr>
<td>Choice of location and dwelling type</td>
<td>low</td>
<td>high</td>
<td>high</td>
<td>medium</td>
</tr>
<tr>
<td>Land supply</td>
<td>non-market</td>
<td>market</td>
<td>market</td>
<td>non-market</td>
</tr>
<tr>
<td>Producer of housing</td>
<td>public/private firms</td>
<td>speculative housebuilders</td>
<td>private construction firms</td>
<td>households</td>
</tr>
<tr>
<td>Access to land profit</td>
<td>non-existent</td>
<td>speculative housebuilders</td>
<td>households</td>
<td>non-existent</td>
</tr>
<tr>
<td>Property ownership</td>
<td>mixed</td>
<td>owner-occupied</td>
<td>owner-occupied</td>
<td>owner-occupied</td>
</tr>
<tr>
<td>Construction profit</td>
<td>low</td>
<td>highest</td>
<td>medium</td>
<td>non-existent</td>
</tr>
<tr>
<td>Risk</td>
<td>low</td>
<td>highest</td>
<td>medium</td>
<td>low</td>
</tr>
</tbody>
</table>
Table 3.3. summarises the key characteristics of the housing provision forms discussed above and highlights their differences with respect to entry costs, control over the development process and access to land and construction profits. Those forms, alternatively, offer different opportunities for the private housebuilding industry on one hand, and for the consumers on the other.

Self-promoted and self-built housing provide opportunities for home owners to be involved in the promotion and land development stage, as well as in the actual production of housing. Entry costs in the case of self-help are low, however choices of location and dwelling type are much more limited. Private construction firms and households act as producers of housing, land profits are internalized and development risk is minimized. In the self-promoted housing sector households act as developers, which allows them to eliminate part of the risk, as well as excessive profits. Speculative housebuilding offers the best choices to consumers, but at the expense of high costs and risk. Land and construction profits are also high in this form of housing provision, which certainly affects the sales price. Owner-occupation through public/private partnership is an intermediate alternative where land profits are eliminated through public ownership of the land, and construction costs are regulated. Alternatively the impact over entry costs is favourable and the risk is reduced.

Owner-occupied housing provision in transition economies is associated with a particular way in which housing is provided, in terms of different land ownership, building, finance and market exchange. Changes in the overall policy framework, and in the macroeconomic and political context, have redefined the set of relationships among
social agents involved in the structure of owner-occupied housing provision. Those emerging patterns of behaviour and relationships between economic agents with different, and often conflicting interests and priorities, were examined in this chapter. It was concluded that the transition from a centrally-planned to a market-based housing system has lead to a radical departure from the socialist model of owner-occupied housing provision and to a greater diversity of forms and actors in the development process. The analysis in the next chapter focuses on the processes of housing market differentiation in post-socialist countries. An assessment of housing market dynamics is critical for the understanding of newly emerging trends in the provision of new owner-occupied housing.
Arguably, the changing structures of housing provision are adapting quickly to the emerging housing markets. A set of key linkages relate the economy, the housing market and the behaviour of the residential construction sector. Therefore, it is important to consider how those linkages translate into a pattern of diverse and dynamic house prices. In transition economies the general movement towards a market-oriented real estate sector, together with inflation, economic recession, escalating construction costs and declining house building activity, have set the scene for the operation of dynamic and diverse home ownership markets. Market transactions produce a series of outcomes which are reflected in the spatial differentiation of housing markets, house price changes and uneven investment patterns. Those processes are extremely difficult to conceptualise and evaluate in a comparative perspective. There are considerable gaps in data on emerging housing markets and investment patterns, lack of adequate and reliable information on housing markets and few precedents on which to base anticipation of trends. There are no monitoring systems in place to reflect changes in supply and demand in most transition economies. A lot more information is needed on the national and local level to analyse those dynamics processes in a systematic manner. Finally, there is an immense diversity of interpretations of how the market actually works.

This chapter provides an assessment of housing market dynamics in selected countries in CEE focusing on the emerging differentiation in home ownership with respect to quality and prices. Further the analysis examines data on house prices and
costs to assist in identifying major trends and patterns of change in housing markets. Finally, the most salient features of home ownership in transition are identified.

4.1. PATTERNS OF HOME OWNERSHIP

Strong regional variations, as noted earlier, exist in the tenure structure of CEE countries, but in general terms home ownership has grown dramatically, while public renting has been marginalised. The co-operative sector has maintained its share.

Figure 4.1: The growth of home ownership in CEE

As Figure 4.1 indicates that at the beginning of the reform six CEE countries had home ownership rates over the EU average of 56 percent. Four years later, following the large scale privatisation of public housing, Albania, Bulgaria, Croatia, Hungary,
Lithuania, Romania and Slovenia have reached levels of home ownership of over 80 percent and could validly be regarded as ‘nations of home owners’. On the other hand, Latvia, the Czech Republic and Poland stand out with levels as low as 40 percent. In all countries in CEE, with the exception of Slovenia, the proportion of owner-occupied units is lower in capital cities and large urban centres than in rural areas. Those differences are especially large in Central Europe: e.g. in the Czech Republic home ownership is 42 percent, while in the capital city it is only 13 percent, in Slovakia - the national average is 52 percent compared to 8 percent in the capital city. Similar differences exist in Poland, Latvia and Estonia (Hegedüs et al. 1996).

In the comparative literature on housing issues, the assumption is frequently made that the level of home ownership is dependent upon the level of economic well-being. The emerging patterns are described as follows: “The incidence of owner-occupied housing is lowest in low-income countries, 33 percent, rises to a peak among middle-income developing countries of 59 percent, and then declines modestly to 51 percent in high-income countries.... variations among and within regions reflect a wide variety of cultural, economic, and policy differences.” (UNCHS-WB 1993:40). The pattern of home ownership in post-socialist countries seriously questions the validity of this statement.

This is particularly well illustrated by Figure 4.2., where per capita income for the 12 countries is plotted against national rates of home ownership. The new landscape of ownership in CEE includes the Eastern European countries with high levels of ownership and the Central European core – consisting of the Czech and Slovak Republic, Poland plus the Baltic States – of predominantly rental systems. As the level of home ownership
does not seem to be related to the level of national income for the transition economies included in this analysis, an alternative explanation needs to be provided.

Figure 4.2: Home ownership in CEE and GDP per capita

It should be noted that the pre-reform conditions in different countries were not equal which leads to long-term repercussions within the system of owner-occupied housing provision. The two distinct groupings mostly reflect the legacy of socialist housing systems and the different levels of state support and/or tolerance with respect to

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1 Ruonavaara (1990) has offered the following models explaining the growth of home ownership: a) consumer choice, b) producer choice, c) housing policy explanation and d) system explanation such as ‘the concept of housing provision’. A combination of all explanatory models needs to be used to capture the similarities and differences in socialist economies with respect to home ownership. However such in-depth evaluation is beyond the scope of this research.
home ownership. Though the phenomenal growth of the tenure in Bulgaria, Hungary, Romania and Slovenia has taken place under different conditions, it was largely determined by the decisions of key state institutions and supply side agencies. Under socialism home ownership was perceived as socially and economically beneficial by individual households as well. Given the system of property restrictions, it could validly be regarded as a strategy of wealth accumulation. Housing policies, ideological and institutional factors play a prime role in determining the tenure division in societies (Schmidt 1989). Undoubtedly, recent privatisation and restitution have fuelled the growth of home ownership in the region, which rose from 58 percent to 65 percent on average from 1990 to 1994\(^2\). Levels of home ownership in transition economies also reflect the actions of institutions, state bureaucrats and market-based suppliers, builders, consumers, and landowners involved in the development of new housing for owner-occupation. However, within the context of market-driven provision those agents are building upon the legacy and the outcomes of earlier cohorts of actors.

In general, home ownership in post-socialist countries has become a tenure type which incorporates a wide range of property types, sizes, and values and offers different level and quality of housing services. What is the quality and the standard of the owner-occupied housing? What are the major quantitative and qualitative differences in the owner-occupied housing sectors in different countries and localities? Those are major sources of division within the home ownership market which need to be explored as a

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\(^2\) The growth of home ownership has been one of the most significant trends in the EU countries as well. The expansion of the sector in the member states in the last decade ranges between 2-3 percent (Priemus et al. 1993).
background for understanding the process of market differentiation. In the interest of brevity, and given the information constraints, the analysis focuses on selected indicators on the size, quality and occupancy patterns in individual countries.

Table 4.1: Indices of housing conditions in owner-occupied housing in 1994

<table>
<thead>
<tr>
<th>Country</th>
<th>Household/dwelling</th>
<th>Square meters/person</th>
<th>Water supply (% of units)</th>
<th>Sewer supply (% of units)</th>
<th>Bath or shower (% of units)</th>
<th>Share of multi-family housing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>35.80</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>1.04</td>
<td>17.00</td>
<td>90.70</td>
<td>85.40</td>
<td>75.40</td>
<td>44.60</td>
</tr>
<tr>
<td>Croatia</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Czech</td>
<td>1.13</td>
<td>29.80</td>
<td>93.40</td>
<td>36.10</td>
<td>84.30</td>
<td>10.10</td>
</tr>
<tr>
<td>Estonia</td>
<td>n/a</td>
<td>47.00</td>
<td>n/a</td>
<td>58.00</td>
<td>42.00</td>
<td>14.00</td>
</tr>
<tr>
<td>Hungary</td>
<td>1.05</td>
<td>33.10</td>
<td>82.00</td>
<td>39.30</td>
<td>86.40</td>
<td>29.00</td>
</tr>
<tr>
<td>Latvia</td>
<td>n/a</td>
<td>20.80</td>
<td>n/a</td>
<td>n/a</td>
<td>87.30</td>
<td>23.80</td>
</tr>
<tr>
<td>Lithuania</td>
<td>1.04</td>
<td>20.20</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>60.80</td>
</tr>
<tr>
<td>Poland</td>
<td>n/a</td>
<td>18.90</td>
<td>67.20</td>
<td>50.50</td>
<td>54.40</td>
<td>8.10</td>
</tr>
<tr>
<td>Romania</td>
<td>1.00</td>
<td>17.90</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>45.00</td>
</tr>
<tr>
<td>Slovakia</td>
<td>1.15</td>
<td>24.30</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>3.30</td>
</tr>
<tr>
<td>Slovenia</td>
<td>1.02</td>
<td>20.00</td>
<td>96.40</td>
<td>96.40</td>
<td>84.50</td>
<td>27.70</td>
</tr>
</tbody>
</table>

Source: MRI 1996

Though there is a significant diversity in housing conditions in different countries, the indicators tell a consistent story of shortages and lack of adequate infrastructure in the owner-occupied housing sector (Table 4.1). Distribution shortages and overcrowding throughout the region are reflected in the ratio of households per dwelling (Romania is

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3 The overview draws extensively on recent official data, collected under the project on Regional Housing Indicators in the Transitional Countries of Central and Eastern Europe.
the only exception where households do not exceed dwellings). Density indicators highlight another dimension of housing problems in the home ownership sector: dwellings are quite small. In Eastern Europe, Latvia and Lithuania there is only approximately 20 sq.m. of usable floor space per person, and in Bulgaria and Romania the value is as low as 17 sq.m. By comparison, data for western European countries are in the range of 30-45 sq.m. per person.

Figure 4.3: Poor quality in the high-rise buildings is due to systematic lack of investment.

In the countries of CEE quality differences in the existing owner-occupied housing are significant between and within countries. It should be recognised that massive investment in housing since the 1970s and large scale public provision have contributed to an overall progress with respect to housing quality and standards. However, obsession with planned targets and new construction have led to serious backlogs in the renewal and maintenance of the existing stock (Figure 4.3). In the past 50 years politically directed public investment concentrated almost exclusively on

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4 Though households are small – 2.6 persons in the Baltic states, 2.95 in Central Europe and 3.14 in South Eastern Europe, only the Czech Republic and Hungary have less than 1 person per room (MRI 1996).
accommodating urban growth. Counteracting this state activity was the development of services and renewal of housing, largely through self-help, in areas completely neglected by public investment. This duality of public and private investment, together with the scarcity of resources under state socialism, resulted in a historically unique pattern of almost complete neglect and underinvestment in entire residential areas, rural communities and even small towns.

*Housing quality* is very difficult to measure in a comprehensive manner, so not surprisingly, public concern traditionally focuses on the physical aspect of housing quality. As it is indicated in Table 4.1. the water supply system is, as far as the data allow a comparison, generally better developed than the sewer system. The Czech Republic, Slovenia and Bulgaria stand out with over 90 percent of the dwellings with water supply. However, more than 30 percent of the owner-occupied housing in Poland lacks this basic service. The available data on sewerage infrastructure suffer from problems in definition as sometimes “second-best” methods, such as septic tanks, are included. There appears to be a backlog in the range of at least 35 - 40 percent of the existing dwellings, often much higher. Slovenia and Bulgaria are notable exceptions. Water and sewerage provision are also a good example of the urban bias which developed under the socialist regime. There is a major difference in quality standards between rural and urban areas. While the majority of the urban housing (80-90 percent) has piped water, electricity and bathrooms, 45-52 percent of the dwellings in rural areas lack piped water, and 40-64 percent do not have modern sewerage facilities (UN/ ECE 1995). It should be noted that these percentages also vary widely within local and regional markets.
While the development of water and sewer networks was mainly a form of public investment, the share of housing units with a bath or shower depended on individual decisions and the financial position of households. In Poland and Estonia close to 50 percent of dwellings are equipped with bath/shower. The other countries have a much larger share of over 80 percent. Surprisingly the share of substandard housing⁵ is as high as 25 to 28.5 percent of the owner-occupied housing stock in Hungary and Slovakia and ranges between 13-15 percent in the Czech Republic and Slovenia. Those results reflect lower housing quality in rural areas and systematic disinvestment and deferral of maintenance in owner occupied housing in the last decades.

There is almost as much diversity in the provision and distribution of housing within cities as there is among countries. Owner-occupied housing stocks usually differ in their physical attributes and spatial organisation. Most of the urban and rural housing stock in CEE was built after 1960⁶. Despite country specific norms and cultural preferences state monopoly over housing production has resulted in the relatively uniform pattern of urban housing across the region consisting of mass-produced high-rise apartment buildings in housing estates. The units, which are made of prefabricated elements with an average size of 55 square meters, are of poor quality and suffer from

⁵ Substandard housing in the Regional Housing Indicators Database was defined as housing with at least one of the following problems: housing built for temporary use; housing units not fulfilling the minimal regulatory requirements specified in building codes; housing without basic utility services (indoor toilet and bathroom); housing in structurally unsound buildings with bad physical conditions.

⁶ In the capital cities of Croatia, Estonia and Lithuania over 70 percent of the housing was built after 1960 compared to the relatively lower share of 48 to 57.2 percent in the Czech Republic, Bulgaria, Hungary and Poland. A quarter of the urban stock in Russia is less than 15 years old, while in other countries the share varies between 8-12 percent.
deferred maintenance. Overall there is a limited choice of housing types, styles and quality levels in the housing stock built by the state construction enterprises (Figures 4.4. and 4.5.).

![Figure 4.4: High-rise apartment buildings in the peripheral housing estates of Bourgas](image)

By comparison, pre-war housing, or small scale infill projects in the inner cities are much more attractive, which is reflected in emerging house price differentiation. Multifamily housing is less than 14 percent of the total owner-occupied stock in the Czech Republic, Estonia, Poland and Slovakia. However its share is as high as 44.6 percent in Bulgaria and Romania, and reaches 60.8 percent in Lithuania (Table 4.1). Those results might be explained by greater involvement of the state in housing provision for owner occupation, as well as with rapid transfers of public housing.
4.2. HOUSE PRICE DYNAMICS AND DIFFERENTIATION

Differences in quality, size, age, type and location of housing discussed in the previous section are manifested in the differentiation of house prices. The emerging home ownership markets are becoming more differentiated. House price dynamics are a major driving source behind the transformation of home ownership. Previous differences and inequalities in the consumption of housing are legitimised through the market. Given the information constraints, several indicators can be used to characterise emerging patterns of change in the countries of transition: number of real estate market transactions and house price inflation.

Recent research indicates that 1-2 percent of the owner-occupied housing stock is exchanged in the market. Though these rates are substantially higher in the capital cities (e.g. 2.6% in Warsaw, 6.3 % in Bucarest), the low turnover in general terms might be due
to the lack of real estate and legal institutions, inadequate mortgage systems, and uncertain capital gains taxation\textsuperscript{7}. Housing market activity since the reform has included mostly property transactions of privatised/restituted housing and exchanges within the existing owner-occupied stock. Markets in the capital cities of Poland and Hungary have recorded close to 5,000 transactions in 1994, which is 1-2.5% of the housing stock, while in Sofia and Bucharest the number is much higher - 11,167 (2.6%) and 39,000 (6.3%). Dwellings currently under construction (many builders sell houses and apartments before completion) are excluded from this estimate. It should be recognised that both buyers and sellers operate in a highly inflationary environment, which influences their behaviour and investment decisions (Renaud 1996b, Struyk et al. 1992, Sykora 1996, Taylor 1994). In 1994 the average prices of housing units in real estate transaction of existing housing in capital cities range between US $231-308 per sq.m. in Bulgaria, Estonia, Latvia and Lithuania. Central European capitals have a higher price - between US $409 - 470 per sq.m. In the case of Croatia and Slovenia the average housing price is approximately US $1,130 per sq.m. (MRI 1996). These prices correlate positively with GDP per capita.

Reliable price information in CEE is extremely hard to come by. Scanty information on prices of newly built flats or houses may be found in the daily newspapers. These, however, are asking prices, and their relationship to actual prices is uncertain. In general, house prices measured in US$ per sq.m. have increased 2 to 10 times between 1990-1994, but those figures need to be interpreted with caution since

\textsuperscript{7} The specification of legal rules governing housing markets has been uncertain and often ambiguous in most CEE countries. Some examples include an efficient land register system, contracts for the transfer of property rights, mechanisms to provide for safe titles given the prospects of restitution claims, provisions for the use and transfer of land when separated from the ownership of the dwellings, etc. (Jaffe et al. 1995).
different countries have experienced periods of high inflation and macroeconomic instability (Table 4.2.).

Table 4.2: House prices in home ownership markets in CEE, 1990-1994

<table>
<thead>
<tr>
<th></th>
<th>Changes in house prices</th>
<th>Changes in consumer prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>140</td>
<td>163</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>130</td>
<td>270</td>
</tr>
<tr>
<td>Estonia</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Hungary</td>
<td>115</td>
<td>134</td>
</tr>
<tr>
<td>Latvia</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Lithuania</td>
<td>110</td>
<td>135</td>
</tr>
<tr>
<td>Poland</td>
<td>180</td>
<td>203</td>
</tr>
<tr>
<td>Romania</td>
<td>500</td>
<td>833</td>
</tr>
<tr>
<td>Slovakia</td>
<td>122</td>
<td>n/a</td>
</tr>
<tr>
<td>Slovenia</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Notes:
1) Reflects changes in median unit value defined as the dwelling price for all (new and existing) owner-occupied units at the beginning of the given year as percent of the price in January 1990 - $US /sq.m.
2) Data on house prices relates to housing markets in the capital cities.
3) Annual rate of change in consumer prices.


The limited data available indicate that house prices have increased much faster than the general consumer price index in Bulgaria, Poland, the Czech and Slovak Republics. Romania has experienced an explosive growth of house prices, while in Hungary and Lithuania changes in house prices are not explicitly correlated to inflation.

There is an erratic market for flats, which fetch high prices relative to average income, particularly in Moscow, Riga, Budapest and Sofia, with prices ranging from US$40,000 to US$90,000. Real estate agents report sales in the upscale market for single-
family housing (Moscow, Kiev, Tallinn, Warsaw) in the range of US$ 120,000- US$ 200,000. Inflation and the lack of investment opportunities elsewhere in the economy make property and housing markets financially attractive (CUI 1997). Behind house price dynamics is not only the inflationary spiral, but also escalating land and construction prices, and other structural changes in the housing market. Housing production in most countries is at its lowest level in over forty years and continues to decrease. With the elimination of price controls and reforms in macro-economic regulation, the market prices of housing ‘overshoot’ their long-run equilibrium price at least until the supply side of the market catches up with demand. Certainly long standing housing shortages and inadequacies in housing consumption have also exerted considerable pressure on the housing market and have become the most apparent catalyst for house price inflation. The lack of competition on the supply side, particularly where the privatisation of state housing industry has been delayed, also affects the distortion of prices.

4.3. EMERGING SPATIAL SUBMARKETS

The previous uniformity of land and house prices under state socialism has given way to a fairly diversified system in which prices reflect location, quality, accessibility of housing and the level of neighbourhood services. This has resulted in the formation of distinct housing submarkets within the urban structure of transition economies. On the basis of house and land price dynamics, it is possible to identify the following emerging urban submarkets: inner city neighbourhoods, peripheral housing estates, suburban housing areas. Those submarkets are not internally homogeneous, but incorporate
different types of housing which can be further grouped according to structural characteristics (apartments, single-family housing, row housing, etc.), construction (brick vs. panel structures), and age (pre-war, industrialised housing, etc.). These characteristics in return are reflected in the setting of prices (Tsenkova, 1994). The general trend is towards differentiation of the housing market reflected in house price maps of urban areas. Effective housing demand in larger cities has influenced house prices considerably, widening the disparities in local and regional housing submarkets. House price changes in local submarkets are significant particularly between attractive inner city areas with mixed office, retail and luxury residential uses and peripheral housing estates (Boyce 1993, Bresin et al. 1996, Kovacs 1994, Pichler-Milanovitch 1994). The aggregate data suggests that the price gap between those submarkets has increased dramatically in the last years. Suburban housing is more significant in the capital cities of Hungary, the Czech Republic and Poland. Still, its share is comparatively small. Suburbanisation has not really taken off in post-socialist cities. Land and infrastructure constraints, and lack of transportation and services in suburban areas restrict urban sprawl. Though pockets of upmarket suburban housing exist on the urban fringe in the large urban centres of CEE countries, suburbs are unlikely to develop on a large scale in the near future\(^8\). Market-driven changes in the urban structure involve a combination of processes well-known in the west - inner city redevelopment and gentrification and a filtering down of prefabricated housing in the peripheral housing estates.

\(^8\) Post-socialist cities have a sparsely populated urban fringe consisting of low density housing (former villages and/or areas designated for the construction of secondary homes under the socialist system of physical planning). In some cases these secondary homes — dachas— are fairly large, good quality, traditionally built structures. In the new market reality these homes are converted into suburban residences or expanded to meet the needs of more affluent households who are able and willing to commute to the city.
The current market for housing in CEE is erratic, to say the least. The prices in the large urban centres do not reflect any degree of maturity of the market, but often rather unrealistic expectations of future profits. Inflation of house prices involves real gains for some home owners – geographically some areas experience massive price increases, others - losses.

Households in locations with positive externalities accumulate capital gains and can benefit from the value of their asset since ‘high status’ neighbourhoods attract the affluent consumers. On the other hand, falling demand in cities with depressed labour markets and high unemployment, coupled with the low quality of prefabricated housing, has left some owners trapped in a declining asset (Figure 4.6.). The differentiation in house prices results in a considerable divergence in the investment position of home owners in attractive inner city housing relative to peripheral housing estates. Those processes contribute to the growing inequality and differentiation in the tenure.
4.4. THE CHANGING PROFILE OF HOME OWNERS

On the demand side movements within the home ownership market in CEE are largely determined by household income and consumer choices. Translation of those choices into actual housing status reflects effective demand – the availability of disposable income to be invested in housing and the affordability of home ownership. Market processes affect the social and economic characteristics of present home owners. It is difficult to imagine the group as homogeneous in the context of rapid socio-economic transformation of post-socialist societies. The emerging income and class differentiation no doubt has crucial implications for the changing profile of home owners.

The legacy of home ownership under state socialism coupled with privatisation have extended the tenure to households which have then become marginalised in the new economic situation. The tenure has become increasingly polarised including an affluent and a low-income ownership sector. At present home ownership conveys mixed images ranging from the established, financially secure multiple income households, the asset rich but cash poor elderly, to the unemployed and overcrowded home owners in recently privatised public housing. None of those categories is homogeneous; households occupy different positions in the home ownership hierarchy and have a different set of experiences (Merett and Grey 1982, Malpass and Murie 1990, Murie 1991). However, despite those growing differences in the profile of home owners, it can be argued that

---

9 Other factors affecting tenure change are demographic shifts, the rate of household formation, the changing size and composition of households. Those factors are no doubt significant in the long-term, but within the time frame of economic transition their impact on home ownership has been relatively modest.
house price inflation has shifted the market power to existing owners as a group - as in any market-based housing system (Saunders 1990). Rising prices are central to the viability of the home ownership market, since mortgage debt is eroded, particularly in a high inflation environment\textsuperscript{10}. In addition, in most CEE countries favourable policies towards ‘old housing loans’ have enabled owners to repay the outstanding debt. Lack of mortgage debt facilitates housing mobility and might be expected to contribute to higher turnover in the housing markets of CEE countries. House price inflation and the significance of money gains fuel demand from second-time buyers willing and able to move up. Housebuilders, alternatively, have responded to these trends in demand producing upscale products — larger and better quality housing in attractive locations.

4.5. TENURE IN TRANSITION

The previous discussion in chapters 3 and 4 explored the restructuring of home ownership in post-socialist societies. The analysis emphasised the importance of changes in institutional, financial and legal arrangements. Major differences in the production, allocation and consumption of owner-occupied housing were evaluated in a comparative perspective. The following table summarises key differences between home ownership in socialist and market-oriented housing systems.

\textsuperscript{10} The economic transition entailed a sharp surge of inflation in CEE countries. In most of the cases state saving banks suffered losses on the outstanding mortgages issued under the old system of fixed low interest rates. However, the hyperinflation in some countries -- Russia, Ukraine -- substantially reduced the value of those losses (Struyk 1996).
### Table 4.3: Home ownership: stages of transition

<table>
<thead>
<tr>
<th>INDICATORS</th>
<th>SOCIALIST SYSTEM</th>
<th>MARKET-ORIENTED SYSTEM</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Levels of home</strong></td>
<td>Smaller share of home ownership in urban areas, very high rates of owner-occupation in small towns and rural areas.</td>
<td>Following large scale privatisation and marketisation of the provision system a corresponding higher shares of home ownership in urban and rural areas.</td>
</tr>
<tr>
<td><strong>Stock</strong></td>
<td>Mass produced housing in high rise, high density apartment buildings located in peripheral housing estates. Single-family housing in rural communities.</td>
<td>Mixed age, quality and location of the housing stock. Newly built housing in the form of small scale, medium density projects.</td>
</tr>
<tr>
<td><strong>Organisation</strong></td>
<td>Centralised distribution of resources - land, materials and labour - through the planning system, planning targets determine the volume and distribution of new housing production.</td>
<td>Private investors -- firms and individuals -- determine the volume of new housing production.</td>
</tr>
<tr>
<td><strong>Role of state</strong></td>
<td>The state has exclusive control over the housing system including the production, allocation, and maintenance of housing. Macroeconomic regulation achieved through price controls.</td>
<td>Establishing and guaranteeing property rights of owners. Focus on regulation of the provision system, enabling the operation of housing markets, phasing of subsidies. Encouragement of home ownership through privatisation of public housing.</td>
</tr>
<tr>
<td><strong>Access</strong></td>
<td>Controlled by state authorities through systems for distribution of housing based on waiting lists maintained by municipal authorities and state enterprises.</td>
<td>Housing is allocated through the market depending on consumer preferences, choices and ability to pay.</td>
</tr>
<tr>
<td><strong>Production</strong></td>
<td>Housing is produced by a small number of state construction enterprises kombinats. Units are standardised, dominance of prefabricated concrete structures. Single-family housing is produced by members of the extended family or through various semi-private arrangements with contractors. Housing costs are higher, discrimination in access to land and materials exists.</td>
<td>State construction firms account for a modest share of housing production. Developers and individual families decide on the type of housing to be built, in response to prices and demand. New private firms are emerging and have established a considerable market presence in several countries.</td>
</tr>
<tr>
<td><strong>Land</strong></td>
<td>Land for residential development is allocated by local officials, land costs are negligible.</td>
<td>Land is acquired through the open market, or exchanged by private landlords for a share in the new housing development.</td>
</tr>
<tr>
<td><strong>Maintenance</strong></td>
<td>Extreme monopolisation of housing maintenance facilities by state organisations, frequently deferred maintenance carried out with substantial delays with the exception of urgent repairs.</td>
<td>Contracts for maintenance and repairs are determined on a competitive basis and carried out by private firms.</td>
</tr>
<tr>
<td>Housing finance</td>
<td>Financing for purchase or construction of apartment units was determined by central planners; households received significant subsidies through low interest mortgages. Lending to families for housing construction of single-family units (usually in small cities or rural areas) was limited in most countries until the 1980s.</td>
<td>Mortgages are still offered mostly by state financial institutions, though other commercial banks are entering the market. Rationalisation and competition has resulted in more complex financial arrangements. High interest rates discourage borrowing, financial institutions are reluctant to take high risks, some experiments exist with mortgage instruments adjusted to the unstable environment.</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Subsidies</td>
<td>Housing is subsidised through nationally regulated and uniform prices of the units, low mortgage rates and utility costs.</td>
<td>Though there has been a dramatic withdrawal of state funding, various subsidies exist mostly in the form of compensation for increased interest rates on ‘old loans’, some targeted assistance for new loans. Off-budget subsidies in the sale of public and/or enterprise housing at below market prices.</td>
</tr>
<tr>
<td>Prices</td>
<td>Nationally controlled, uniform and stable house prices.</td>
<td>Diverse structure reflecting location, type and quality of housing. Unstable and immature market, house price inflation.</td>
</tr>
<tr>
<td>Availability</td>
<td>Chronic shortages of housing in larger urban areas.</td>
<td>Both new and existing housing is available.</td>
</tr>
<tr>
<td>Affordability</td>
<td>Housing costs are low in the range of 2-5 percent of the household budget.</td>
<td>Housing is affordable to a small segment of the population. Urban households experience major affordability problems.</td>
</tr>
<tr>
<td>Value orientation</td>
<td>Major role in meeting housing needs. Housing has a use value, it is also associated with privacy, independence. Linked to family savings.</td>
<td>Commodification of housing make accumulation and speculation more prominent. Greater emphasis is placed on its exchange value.</td>
</tr>
<tr>
<td>New owners</td>
<td>Mostly families with diverse occupational status registered with municipalities and/or state enterprises in housing need.</td>
<td>Affluent families with incomes and jobs enabling them to pay high housing costs often without a mortgage.</td>
</tr>
</tbody>
</table>

Home ownership in post-socialist countries has become *a mass tenure* largely due to government policies, considerable subsidies and investment in housing during state
socialism. The growth has occurred in an environment of full employment, generally equal incomes, negligible housing costs, stable family arrangements, no mobility and comprehensive welfare provisions. Further development of home ownership will occur through competition and market penetration in the housing provision system as the most significant factors affecting the transformation of tenure.

In the transition from a centrally planned to a market-based housing system urban markets have experienced a process of pronounced market differentiation and polarisation. *Home ownership is no longer a relatively homogeneous and uniform type of tenure.* Previous relative ‘housing equality’ has given way to inequality. Qualitative and quantitative aspects of housing consumption, mostly a reflection of socialist allocation policies, are the basis of housing inequality in the new market reality. Overcrowding, substandardness or overconsumption no doubt reinforce the differentiation in the home ownership market. In addition, the growing differentiation reflects the attractiveness of the location and the neighbourhood amenities and is demonstrated in the house price dynamics in particular submarkets (e.g. inner cities vs. peripheral housing estates).

There is also a growing income differentiation among home owners coupled with inability to cope with the rising costs in the owner-occupied sector, which will no doubt lead to polarisation in the market place. Deep housing subsidies have created housing consumption substantially larger in terms of square meters than would be the case in the absence of subsidies. The operation of the housing market is expected to provide a more efficient allocation and distribution of the existing housing, a match between the socio-economic position of the owners and the quality/price of the unit. Previous social mix -
for better or for worse - will gradually give way to income segregation and polarisation in housing markets\textsuperscript{11}.

Related to the changing legal and financial context, home ownership has acquired a different meaning – it has become a source of personal wealth and power, which will further influence the economic position of households, and affect their behaviour in the housing market (Mandic and Clapham 1996). Housing status cuts across other social divisions and contributes to social inequalities.

The commodification of the housing provision system has transformed home ownership from a supply-driven into a demand-driven tenure. In a demand driven housing system consumer preferences and choices are a powerful influence over the quality, type and the price of newly built housing. Shifts in demand indicate a growing focus on inner city living, neighbourhood quality, medium density housing types. Moves within the market are largely associated with filtering in housing and the formation of “high status” neighbourhoods. Those changes will certainly have a profound effect over the provision of new housing in the home ownership market. The impact can be evaluated empirically by examining levels of output, changes in costs and quality of newly built housing, variations in housing types, sizes, materials and construction methods. Those issues are analysed in the next chapter.

\textsuperscript{11} In post-socialist societies which happen to be more ethnically diverse – e.g. the Baltic States with a significant share of Russian speaking population— housing markets might lead to segregation between ethnic groups (Jaffe et al. 1995).
Previous discussion of housing reforms has examined the diverse experiences of the countries of CEE. Focusing on processes and patterns of change in the home ownership market in particular, it was argued that home ownership has become a demand-driven tenure. Under the current conditions growth of the sector occurs through market-based provision of new housing. This chapter focuses on changes in demand and their effect over the supply of new housing. More specifically it explores trends in housing market outcomes as they are reflected in housing output, level of private investment, land and construction costs in the 12 countries under study.

5.1. DETERMINANTS OF NEW HOUSING SUPPLY AND DEMAND IN CEE

As Figure 5.1. indicates, the flow of housing services from the existing housing stock, its physical condition, quality and tenure distribution are decisive factors for the operation of housing markets. New construction is the most dynamic component of housing supply and is subject to a number of external influences: economic growth, inflation, production restructuring, housing reforms, and credit availability. In the countries of CEE new housing, due to the substantially better quality and diversity of the

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1 Further privatisation of public housing in some countries still can contribute to the growth of home ownership, but its impact is less significant in the second stage of the transition process.

2 Supply changes in the existing stock can take several forms: changes in the number and size of units through subdivision or conversion, changes in the quality and value of housing without physical alteration, changes in tenure, changes in the quality of the unit through modernization and improvement. These changes, however, are less visible compared to new housebuilding.
product, dominates the setting of house prices in the market. Its significance is much greater than its small share in the total housing supply.

Figure 5.1: Determinants of new housing supply in the home ownership market of transition economies

Other determinants in the process of new housing supply are demand related. On the demand side, households are classified on the basis of attributes, preferences, and constraints. Income is usually taken as an overall index of the demand and purchasing
power of households, while the house price is taken as an index of the type of housing supply available.

As in long-established markets, the linking mechanism is the market transaction, which brings together households and housing units. The outcomes in spatial terms are related to land use changes and location patterns of new housing supply. More specifically changes in demand are reflected in the type, quality, size and prices of new housing. A major factor in the supply of new housing is the structure of the housebuilding industry. Changes are mostly associated with the internal dynamics of the sector and the processes of privatisation. The growth of private housebuilding firms facilitates competition on the supply side and changes profoundly the production of housing. Those profit motivated actors are very flexible and adaptable to the marketplace. The new, competitive strategies of private housebuilders are reflected in the economics of housebuilding (e.g. construction and land costs, house prices, profits) and the organisation of housing production. The analysis below explores in more detail supply and demand trends in the provision of new owner-occupied housing in selected transition economies.

5.2. HOUSING DEMAND

Housing demand in a market-based housing provision system is determined by demographic trends, such as the rate of in-migration and changing family and household composition, but more importantly by income distribution, house prices and affordability
(Merett and Gray 1982, Rothenberg et al. 1991). Those factors influencing demand in the
countries of CEE are examined briefly in a comparative perspective.

5.2.1. Demographic Change and Income Differentiation

It should be noted that the region’s population is highly urbanised, which explains
demand pressures and higher house prices in urban housing markets. Russia and the
Czech Republic have 73-74 percent urban population, followed by Estonia, Latvia and
Bulgaria whose share is over 68 percent. Population densities vary more widely among
countries with Russia (8.7 persons per square kilometre) and the Czech Republic (131
persons per square kilometre) representing the extremes of the range (UNCHS-
HABITAT 1996). Statistics indicate that population growth in large urban centres of CEE
has been quite weak in the 1990s (MRI 1996). However, the composition of this
relatively stable population has changed in age and household structure. In general,
current demographic trends indicate that the population is growing older and the share of
single person and non-family households has increased. This results in higher demand for
smaller units and greater diversity of housing types to meet a variety of needs.

Most recent information shows that approximately 12-14 percent of the
population is in the 65+ age group, while the share of the 15-44 age group is around 45-
47 percent (EIU, 1995). As the population ages, a large proportion of the stock may be
occupied by one- and two- person elderly households. Declining household size, 2.6 on
average in CEE, is another major demographic trend. Recent data on the number of
households and annual household formation rate are presented in Table 5.1. Notably
households in the Baltic States and Slovenia are decreasing in 1990-1994, mostly due to emigration of Russian ethnic groups after the independence. In the other countries the rate of growth is considerably lower.

Table 5.1: Households and household income, 1994

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of households (thousands)</th>
<th>Annual household formation per 1,000 population</th>
<th>Household income, 1994</th>
<th>Average household size</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>White collar</td>
<td>Blue collar</td>
</tr>
<tr>
<td>Albania</td>
<td>675.4⁴</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>2,964.6⁴</td>
<td>n/a</td>
<td>3,302</td>
<td>3,139</td>
</tr>
<tr>
<td>Croatia</td>
<td>1,544.3⁴</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Czech</td>
<td>4,153.00</td>
<td>0.00244</td>
<td>3,999</td>
<td>3,562</td>
</tr>
<tr>
<td>Estonia</td>
<td>635.00</td>
<td>-0.00481</td>
<td>5,237</td>
<td>3,594</td>
</tr>
<tr>
<td>Hungary</td>
<td>3,923.00</td>
<td>0.00080</td>
<td>6,875</td>
<td>4,657</td>
</tr>
<tr>
<td>Latvia</td>
<td>1,069.00</td>
<td>-0.00740</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Lithuania</td>
<td>1,300.00</td>
<td>-0.00034</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Poland</td>
<td>12,072.00</td>
<td>0.00066</td>
<td>4,213</td>
<td>4,213</td>
</tr>
<tr>
<td>Romania</td>
<td>7,281.4⁴</td>
<td>n/a</td>
<td>n/a</td>
<td>3,371</td>
</tr>
<tr>
<td>Russia</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Slovakia</td>
<td>1,787.00</td>
<td>0.00042</td>
<td>3,426</td>
<td>3,039</td>
</tr>
<tr>
<td>Slovenia</td>
<td>637.00</td>
<td>-0.00038</td>
<td>11,777</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Notes:
1) Estimates are based on changes in the period 1990 to 1994
2) Household income is in $US for 1994
3) Persons per household in capital cities, 1995
4) Number of households relates to 1990, the latest available data

Source: MRI, 1996

Economic recession has hit most of the CEE countries hard and economic recovery is projected to be very slow. Within that context, income differentiation has
become a major indicator of social differentiation. Income distributions in selected countries for households and major employment categories are presented in Table 5.1. White collar workers earn 2-3 times more compared to the economically inactive or the unemployed. Although there have been positive signs of wage recovery in most CEE countries since 1994, still the monthly wages are as low as US$ 133 in Russia and US$ 223 in the Baltic States. Monthly wage levels in Central Europe are in the range of US$ 279-380 and up, but are still considerably lower than Western European standards (EIU, 1996). Much of the region’s income is undeclared. Private sector activities involve a lot of black market operations\(^3\). Income differentiation in post-socialist societies also has major implications for the housing market. People with more disposable income seek to achieve a better living standard and settle in a more attractive environment, which has been a catalyst for the provision of higher-end products in the housing market. Anecdotal evidence also indicates that much of the undeclared income is invested in new housing, which partly explains the existing schemes of cash financing on an instalment basis.

5.2.2. House Prices and Affordability

Low wages and employment uncertainty, coupled with escalating house prices and high mortgage rates, have limited the effective housing demand for new owner-occupied housing. Even though households were prepared to pay higher housing costs at the start of the reform, they found themselves squeezed out of the home ownership market with very little chance to improve their housing situation. However, in countries

\(^3\) For example the shadow economy is estimated to account for 40 percent of the GDP in Russia and Ukraine, and no doubt has a considerable presence in the other transition economies (EUI 1996).
with a legacy of high home ownership rates, movement up the market is a significant push factor for the supply of new housing.

The gap between house prices and income for first-time buyers has increased dramatically, reaching a ratio of 5:1 to 7:1 in countries like Hungary, Bulgaria, Poland, and Slovenia (Figure 5.2). Anecdotal evidence suggests that the ratio of house-price-to-income is much higher in Russia and Ukraine. In different local markets house prices reportedly can be higher than the average due to long existing shortages and distribution inefficiencies. Hegedüs et al. (1996) state that within capital cities, the house-price-to-income ratio has dropped from 9.3 in 1990 to 6.8 in 1994. The falling ratio is consistent with better functioning of housing markets, loosened restrictions on labour and residential mobility. Although the market prices of new and existing dwellings have softened, sometimes significantly in the case of Bulgaria and Romania, still the ratio of new unit prices to median household income in urban areas has remained relatively high by Western standards. The previous housing shortage has been replaced by a shortage of affordable housing.

Figure 5.2: First time buyers face significant affordability problems.
Table 5.2: Housing costs in the owner occupied sector, 1994

<table>
<thead>
<tr>
<th></th>
<th>Utilities as a percentage of income</th>
<th>1994</th>
<th>1990</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td></td>
<td>6.8</td>
<td>25</td>
<td>5.8</td>
</tr>
<tr>
<td>Czech Republic</td>
<td></td>
<td>7.8</td>
<td>n/a</td>
<td>5.6</td>
</tr>
<tr>
<td>Estonia</td>
<td></td>
<td>9.9</td>
<td>n/a</td>
<td>3.6</td>
</tr>
<tr>
<td>Hungary</td>
<td></td>
<td>19.7</td>
<td>5.9</td>
<td>5.7</td>
</tr>
<tr>
<td>Latvia</td>
<td></td>
<td>9.1</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Lithuania²</td>
<td></td>
<td>17.5</td>
<td>n/a</td>
<td>3.2</td>
</tr>
<tr>
<td>Poland²</td>
<td></td>
<td>11.1</td>
<td>n/a</td>
<td>3.2</td>
</tr>
<tr>
<td>Romania</td>
<td></td>
<td>9.5</td>
<td>16.6</td>
<td>4.7</td>
</tr>
<tr>
<td>Russia¹</td>
<td></td>
<td>n/a</td>
<td>n/a</td>
<td>5-21</td>
</tr>
<tr>
<td>Slovakia</td>
<td></td>
<td>14.7</td>
<td>4.0</td>
<td>5.6</td>
</tr>
<tr>
<td>Slovenia</td>
<td></td>
<td>9.1</td>
<td>n/a</td>
<td>7.0</td>
</tr>
</tbody>
</table>

Notes:
1) Data relates to Tver and Moscow (Struyk and Daniell 1995).
2) Data relates to house prices in the capital cities.

In addition, utility costs in owner-occupied housing have risen up to 11 percent of the average household income for the CEE region, indicating a general tendency of public authorities to eliminate consumer subsidies (Table 5.2.) In some countries utility costs have reached 17 to 20 percent of income⁴ which has increased the burden for low income owners.

Housing markets in the CEE region cannot be fully understood without referring to consumer choices and preferences. With high inflation and rapidly escalating house prices the capital gains of being a home owner are substantial. Investment in housing is

⁴ Those figures should be considered against the background of spending on food, furniture, transportation and other items which consume over 60 percent of the household budget in most CEE countries.
economically attractive for individual households, who channel a large fraction of their savings into improving their housing situation. Decreasing public and co-operative housing and lack of private rental accommodation fuel the demand for home ownership. In addition, under state socialism home ownership was seen as socially and economically beneficial. Other than provision of shelter, security and privacy, the home was seen as a symbol of material prosperity. These popular perceptions are deeply imbedded in society and still have a strong influence over consumer behaviour. Notwithstanding these preferences, most households throughout the region overwhelmingly do not have the income and savings to purchase a home. Very few households will be able to enter the home ownership market in the foreseeable future.

5.3. TRENDS IN THE SUPPLY OF NEW HOUSING

Housing production and investment both fell sharply in all CEE countries during the reform from planning to markets. Housing output and investment continued to decline despite the growth in GDP at the end of 1993-1994 experienced by some transition economies. The analysis highlights the dominant trends in this period focusing on changes in output and the balance of private vs. public development. The restructuring of the housebuilding industry is explored in relation to these processes.

5.3.1. Collapsing Output

The recent economic recession has hit the housing construction industry especially hard in all CEE countries. A massive decline in housing output was the initial effect of the state withdrawal from the provision of housing.
Privatisation and restructuring within the construction industry further contributed to the process. By the mid-1990s, housing starts had fallen to an extremely low level. As indicated on Figure 5.3, housing output in 1994 was only around one fourth of the level reached in 1980 and around half of the level in 1990 (the Russian Federation is excluded). The decline in the Baltic states was even more serious. By 1994, the median housing output for CEE in 1994 was 2.1 units per 1,000 inhabitants.

In 1994, housing output in the Czech Republic and Hungary was approximately 20,000 units for each country. Romania and Poland had 60,000 to 70,000 units each, while the total output of the three Baltic States was 16,500 units. Available data for several countries in CEE indicates further decline in housing output in 1995 (UN/ECE 1997b). Since 1996, a clear upswing has been noticeable in Hungary and Romania, a
trend that is expected to accelerate in 1997. Construction (residential, commercial and infrastructure development) in the central part of Eastern Europe is expected to grow annually by six percent up to the year 2000. The outlook for growth is considerably lower elsewhere in CEE and is expected to reach in the year 2000 half of the construction level of the pre-transition period (Euroconstruct, 1995).

5.3.2. Growing Share of Private Housebuilding

Private sector activity in housing construction was much less affected by the recession, sharply rising prices, inflation and falling real incomes. In Central Europe private forms of new construction decreased only by 20-40 percent in 1990-1994, while the overall drop in housing construction was between 40 and 75 percent (Dübel and Tsenkova 1997). This reflects the relative strength of private sector activity vis-à-vis its public counterpart. Though production and investment in housing fell sharply in the 1990-1994 period, anecdotal evidence suggests that shifts from new construction to renewal and rehabilitation have become significant. The transition from central planning to markets has resulted in considerable growth of private sector involvement in the supply of new housing.

Housing development in the socialist planned economy was mostly public. In 1980, 36 to 93 percent of new housing was developed by the public sector (59 percent on

---

5 The division of Czechoslovakia in late 1992 led to different results in each of the two resulting countries. The Czech Republic recovered faster and the slump was not as deep as in Slovakia. During the mid-1990s the Czech construction industry achieved the most dynamic growth of all transition countries, while in Slovakia a turning point was reached in 1995 mainly due to new infrastructure programs as well as increased investment in residential construction. In Hungary, restructuring and privatization were initiated very early. However the transformation process had lost some of its original momentum by the mid-1990s.
average for the region). Co-operatives accounted for 6 to 38 percent, while private construction, mostly self-help, ranged from 6 to 49 percent (Table 5.3.).

<table>
<thead>
<tr>
<th>Country</th>
<th>1980 % of total</th>
<th>1994 % of total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>public</td>
<td>coop</td>
</tr>
<tr>
<td>Albania</td>
<td>51</td>
<td>-</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>52</td>
<td>-</td>
</tr>
<tr>
<td>Croatia</td>
<td>38</td>
<td>-</td>
</tr>
<tr>
<td>Czech</td>
<td>42</td>
<td>34</td>
</tr>
<tr>
<td>Estonia</td>
<td>86</td>
<td>8</td>
</tr>
<tr>
<td>Hungary</td>
<td>52</td>
<td>-</td>
</tr>
<tr>
<td>Latvia</td>
<td>73</td>
<td>21</td>
</tr>
<tr>
<td>Lithuania</td>
<td>64</td>
<td>18</td>
</tr>
<tr>
<td>Poland</td>
<td>46</td>
<td>28</td>
</tr>
<tr>
<td>Romania</td>
<td>93</td>
<td>-</td>
</tr>
<tr>
<td>Russia²</td>
<td>90</td>
<td>-</td>
</tr>
<tr>
<td>Slovakia</td>
<td>36</td>
<td>38</td>
</tr>
<tr>
<td>Slovenia</td>
<td>51</td>
<td>-</td>
</tr>
</tbody>
</table>

Notes:
1) Public is defined as development by state, municipal and public organisations; coop refers to development promoted by co-operatives; market is defined as speculative housebuilding; private refers to housing developed by individuals.
2) The data for private developers in 1994 includes co-operative and market development.

Sources: MRI 1996, Kosareva et al. 1996

Several countries had over 45 percent of privately developed housing: Albania, Bulgaria, Croatia, Hungary, and Slovenia. Croatia stands out with private construction as high as 62 percent. The share of co-operative construction varied greatly in the region; it was highest in Czech Republic, Slovakia and Poland. By 1994, the balance of public vis-à-vis private development had changed substantially. In 1994 the public sector on average accounted for 30 percent of the new development in 1994, a considerable decline from
59 percent in 1980. In some countries, Hungary is a notable example, public sector development accounts for less than 3 percent of new construction. The co-operative provision has maintained its share in the Czech and Slovak Republics, Poland and the Baltic States, although it has declined recently in most of the countries due to withdrawal of state financial support. The private sector provision includes self-promoted and self-built housing for owner-occupation, while the market form relates to speculative housebuilding.

Data indicate that private developers play a significant role in new housing construction. In 1994 the share of private sector development on aggregate is 56 percent, which is almost twice the 1980 value. In Hungary, Slovenia and Croatia, privately developed housing amounts to 90 percent of the total output in 1994, while in Romania it is two thirds. Poland, the Czech and Slovak Republics have a share of 41 to 53 percent. The speculative form of development has so far become important only in Latvia, Hungary and to some extent in Poland.

The next aspect in the comparative analysis on the supply side is to consider the share of privately developed housing in relation to existing patterns of tenure and ownership. The available data for 1994 are presented in Figure 5.4. The assumption is that nations of home owners will have higher rates of private housing production and development. A strong association seems to exist for most of the countries in the group with rates of home ownership over 80 percent, particularly in the case of Hungary, Slovenia and Croatia. Bulgaria is an exception in this respect — with much lower rates of
privately developed housing compared to the other countries in the group — however, state construction firms build exclusively for owner-occupation.

Figure 5.4: Home ownership and share of privately developed housing, 1994

Source: MRI 1996, Kosareva et al. 1996

Not surprisingly, the core of Central European countries and the Baltic States with lower levels of home ownership have a less marketised provision of new housing. The diverging experience of Russia, where the share of privately developed housing is considerably higher compared to rates of home ownership, indicates a stronger political commitment to privatisation of the housing industry.
5.3.3. The Housing Industry in Transition

The housing industry in the region is in a process of restructuring. A wide range of different organisations, varying by size, ownership, and expertise, has emerged. Indeed, the reform of the housebuilding industry has been more significant in countries where large scale industrial privatisation has taken place. Further restructuring has been driven by demand in the home ownership market and shifts from public to private investment in new housing development.

In the general absence of national/local data on the private housebuilding industry, some general information on the construction firms in the countries of CEE can be used to highlight major outcomes of the transformation process in the industry. Several characteristic features emerge. First, the share of private construction firms in 1994 has increased to 70-85 percent in Hungary, Lithuania, Romania and Slovakia (MRI 1996). Second, employment in the construction sector has contracted by 15-25 percent on average between 1990-1994 in all CEE countries. Poland and Romania are notable exceptions with a modest increase in construction employment for the same period (UN/ECE 1997a). Third, there has been a phenomenal growth in the number of firms, particularly those with less than 20 employees. The process has had a dramatic impact in Romania, Poland and Estonia. The last point is illustrated in Table 5.4. where available data on construction firms grouped according to number of employees are presented. Time-series indicate that a fragmented industry has emerged in a short time. Small firms account for a larger share of the construction output in Poland, The Slovak Republic and
Table 5.4: Construction firms grouped according to number of employees in CEE

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Total number of firms</th>
<th>Percentage of firms in the following employee categories</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Up to 19</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>1991</td>
<td>923</td>
<td>4.3</td>
</tr>
<tr>
<td></td>
<td>1992</td>
<td>4576</td>
<td>75.3</td>
</tr>
<tr>
<td>Croatia</td>
<td>1990</td>
<td>953</td>
<td>60.8</td>
</tr>
<tr>
<td></td>
<td>1992</td>
<td>1972</td>
<td>80.2</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>1991</td>
<td>392</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>1993</td>
<td>1186</td>
<td>-</td>
</tr>
<tr>
<td>Estonia</td>
<td>1990</td>
<td>967</td>
<td>0.1</td>
</tr>
<tr>
<td></td>
<td>1994</td>
<td>2395</td>
<td>77.0</td>
</tr>
<tr>
<td>Hungary</td>
<td>1990</td>
<td>2132</td>
<td>47.7</td>
</tr>
<tr>
<td></td>
<td>1993</td>
<td>5356</td>
<td>81.3</td>
</tr>
<tr>
<td>Latvia</td>
<td>1992</td>
<td>1503</td>
<td>61.1</td>
</tr>
<tr>
<td>Lithuania</td>
<td>1992</td>
<td>623</td>
<td>21.0</td>
</tr>
<tr>
<td>Poland</td>
<td>b) 1990</td>
<td>1997</td>
<td>8.5</td>
</tr>
<tr>
<td></td>
<td>1994</td>
<td>132443</td>
<td>96.5</td>
</tr>
<tr>
<td>Romania</td>
<td>1990</td>
<td>203</td>
<td>4.9</td>
</tr>
<tr>
<td></td>
<td>1994</td>
<td>6965</td>
<td>71.5</td>
</tr>
<tr>
<td>Russia</td>
<td>1994</td>
<td>124973</td>
<td>84.2</td>
</tr>
<tr>
<td>Slovakia</td>
<td>1990</td>
<td>10211</td>
<td>98.4</td>
</tr>
<tr>
<td></td>
<td>1994</td>
<td>34567</td>
<td>19.3</td>
</tr>
<tr>
<td>Slovenia</td>
<td>1990</td>
<td>18232</td>
<td>70.3</td>
</tr>
<tr>
<td></td>
<td>1994</td>
<td>18196</td>
<td>70.9</td>
</tr>
</tbody>
</table>

Notes:
a) Including data for the next column.
b) Data refer only to the following construction and assembly units: state units, co-operatives, social and political organisation units, and units with mixed capital.
c) Data refer to all construction and assembly units.

Source: UN/ECE 1997b
Slovenia. The value of construction output produced by small firms in those countries ranges between 32-54 percent of the total. In Russia firms with less than 100 employees account for 79.9 percent of the total construction output. However, larger firms still play a much more significant role in the other CEE countries (UN/ECE 1997a).

Anecdotal evidence indicates that most construction firms in CEE build for the home ownership market, but are also involved in infrastructure provision, the construction of commercial buildings, repair, maintenance and conversions. It is impossible from the available data to differentiate the number of housebuilding firms, the amount of direct employment or subcontracting used, and the share of speculative housebuilders. These indicators are critical for understanding the nature of the industry.

Indeed, the private housebuilding industry has shown a high capability for adjusting to the changing marketplace during times of interest rate fluctuation, economic uncertainties and shortages of both land and housing finance. The existence of a large number of small firms in the housebuilding and renovation sectors reflects the ease of entry into the industry, the fragmented nature of the development process, the demand for small-scale traditionally built housing, and the lack of economies of scale. In general, the industry is characterised by a large number of small firms building up to 25-30 houses and/or apartments per year and only a handful of larger firms building more than 100 housing units per year. Large builders play a more prominent role in selected large urban markets, including Budapest, Prague, St. Petersburg and Warsaw. Those companies use their own resources for construction finance, and in some cases have established
Some housebuilding firms have started by spinning off from state construction enterprises, others – as a new business venture driven by market demand.

Notwithstanding progress, housing provision in the region remains limited because:

- effective demand is limited due to low wages and employment uncertainty; household savings have been eroded by inflation
- subsidies for the production of housing are being rapidly eliminated which leads to higher construction costs
- the lack of serviced land has resulted in extremely high land prices in major cities
- advance cash payments have become the basis for financing of housing in the absence of adequate formal housing finance (Figure 5.5.)
- private builders are servicing mainly the upper end of the housing market and little capability is being developed to produce moderately priced housing.
5.4. OUTCOMES: BUILDING FOR THE ELITE MARKET

The opening up of housing markets to private construction activity and the reorganisation of the industry have resulted in significant changes in the size, quality and type of new housing. Aggregate data indicate that in 1990-1992 the average size of the newly built unit has increased by 122 percent and is estimated to be 86 sq.m. Increases in size vary between 105 and 158 percent in the region (Table 5.5). A profound shift has also occurred in the construction methods. Large scale panel construction through which 50 to 70 percent of the urban housing stock has been built, has been eliminated. Private housebuilders employ largely traditional methods. Brick and concrete construction are increasingly popular in the region. On-site construction is labour intensive and time consuming. Housing takes an average 18 to 24 months to complete. However, those methods have improved dramatically the diversity of the product which is reflected in the design and variety of dwellings offered on the market. Private housebuilding has been very quick to adjust to the marketplace and broaden consumer choices with respect to size, type of units and architectural styles. Though systematic information on other indicators which refer to quality is not available, anecdotal evidence suggests that other aspects of housing quality: standards and infrastructure provision have also improved considerably.

The markets for new housing have become more differentiated and polarised with a marked difference between the high and low ends. Most of the newly built housing is in the capital cities and large urban centres where greater demand is demonstrated. Private development is mostly in the form of small-scale, medium density housing, built largely
to meet the needs of more affluent households. The physical and design characteristics of apartment buildings have changed from exclusively high-rise, high-density structures to more medium-rise, traditionally built structures of walk-up apartments and triplexes, which have become a common form of new condominium development in urban markets (Figure 5.6.). Since 1990, newly constructed five- to eight-storey buildings have accounted for 55 to 75 percent of total housing output (UN/ECE 1995).

![Image of apartment buildings](image.png)

**Figure 5.6:** New housing in the inner city of Bourgas

The upper end of the housing market aspires to high quality housing and pays premium prices for the right product. This segment is small but significant for the new housebuilding. It offers large, centrally located luxury apartments, but also single-family housing on estate size lots. Due to high prices and housing finance constraints home buyers are more likely to purchase an apartment. Medium density, three to six storey housing with 80-120 square meter apartments have become successful in urban markets. Options include inner-city infill and/or development of vacant lots in
some of the older housing estates that are fairly accessible from downtown and industrial areas.

The production of *serviced residential land* is severely constrained by a cumbersome and lengthy approval process, as well as by local authorities’ lack of capacity to finance necessary infrastructure (ECE 1996b). Typically, cash-constrained municipalities will have no budget allocation for the capital intensive infrastructure work, thus shifting prohibitive costs onto developers and/or consumers. This has slowed down the suburbanisation process and has channelled new development mostly in areas with existing technical infrastructure. Alternatively such barriers for new housing construction have pushed up the prices of serviced urban land on the market, particularly in the inner cities. Legal uncertainties about restitution claims, property titles, inadequate land register systems further contribute to land shortages and the fragmented nature of land supply. Land prices vary widely according to the size of the city and location. Average land cost defined as a percentage of the total house price in typical new housing development is below 18 percent in Bulgaria, Estonia, Poland and Slovakia. Those costs can be as high as 30-35 percent in Croatia, the Czech Republic, Hungary and Romania (Table 5.5).

*Construction costs* are difficult to forecast and estimates do not remain valid for long due to high levels of inflation and uncertainty about the availability and cost of building materials. Reported costs range from US$ 150-295 per square meter in Albania, Bulgaria, Estonia and Poland. Costs are higher in the Czech Republic, Romania and Hungary – between US$ 320 - 550 per square meter. Slovenia and Croatia stand out with
building costs over US $850 in 1994. As time series in Table 5.5. indicate, there was a considerable increase in construction costs ranging between 66-405 percent for the 1990-1994 period.

Table 5.5: Land and construction costs in owner-occupied housing, 1990-1994

<table>
<thead>
<tr>
<th>Country</th>
<th>Land Cost</th>
<th>Construction Cost</th>
<th>New Unit Size, m²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>n/a</td>
<td>37</td>
<td>150</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>17</td>
<td>120</td>
<td>176</td>
</tr>
<tr>
<td>Croatia</td>
<td>35</td>
<td>1500</td>
<td>1000</td>
</tr>
<tr>
<td>Czech</td>
<td>9-33</td>
<td>152</td>
<td>337</td>
</tr>
<tr>
<td>Estonia</td>
<td>18</td>
<td>n/a</td>
<td>230</td>
</tr>
<tr>
<td>Hungary</td>
<td>15-30</td>
<td>n/a</td>
<td>550</td>
</tr>
<tr>
<td>Latvia</td>
<td>n/ap</td>
<td>n/ap</td>
<td>n/ap</td>
</tr>
<tr>
<td>Lithuania</td>
<td>20</td>
<td>318</td>
<td>260</td>
</tr>
<tr>
<td>Poland</td>
<td>14</td>
<td>302</td>
<td>295</td>
</tr>
<tr>
<td>Romania</td>
<td>32</td>
<td>320</td>
<td>336</td>
</tr>
<tr>
<td>Russia</td>
<td>n/a</td>
<td>n/a</td>
<td>300</td>
</tr>
<tr>
<td>Slovakia</td>
<td>6-15</td>
<td>n/a</td>
<td>320</td>
</tr>
<tr>
<td>Slovenia</td>
<td>20-25</td>
<td>1055</td>
<td>859</td>
</tr>
</tbody>
</table>

Notes:
1) Defined as a percentage of the total house price (including land price) for typical newly constructed units
2) Defined as the present replacement cost (labour, materials, on site infrastructure, management and contractor profits) in US$/ sq. m. of a median priced dwelling unit

Source: MRI 1996; Kosareva et al. 1996

Albania, the Czech Republic and Bulgaria experienced the greatest increase. However those estimates need to be evaluated in relation to fluctuating exchange rates and inflation. Building costs are apportioned differently throughout the region among land, labour and materials, and this makes rules of thumb difficult to apply. Those
specific conditions and country policies make evaluation of development and construction costs in a comparative perspective extremely difficult.

To summarise, the transition from a centrally planned to a market based housing system leads to a different organisation of the development process and increases the role and involvement of private housebuilders and households. A large number of private firms produces new housing. These new actors compete in the market place to deliver better products and services. Equally important to the emergence of private developers and housebuilders has been the increase in the construction of single-family housing particularly in smaller cities. Self-help and self-promoted forms of housing provision have become dominant in these areas in most CEE countries. However, in large urban centres the situation is different. Most of the newly built housing is located in the inner cities or the mature estates in relatively close proximity to central area. Self-promoted or speculative built medium-density apartment housing has become the norm. Private housebuilders in these markets provide single-family housing for the upscale market (e.g. ‘cottages’ in Russia, ‘vilas’ in Bulgaria), but its share is very small.

In the demand-driven housing provision system, consumer preferences and choices are a powerful influence over new housebuilding. These preferences show a growing focus on inner city living and neighbourhood quality, which in turn affects the location of new housing. The change in the physical characteristics of newly built housing, demonstrated in the increasing range of housing types, sizes, improvement of quality indicates that the market-driven provision system is much more responsive to consumer preferences and can deliver better products compared to the state controlled
system. Private housebuilders prove to be more efficient than state construction enterprises. The kombinats were notoriously famous for production delays, poor management of the construction process and unfinished projects. The buildings themselves were costly to maintain and had very low energy efficiency. Though housing in the deregulated markets has become more expensive, medium-density, traditionally-built housing as opposed to the uniform, system built units in high-rise estates has become the norm.

Increasing construction costs, though relatively low compared to Western European standards, coupled with land production costs have pushed house prices up considerably. A high ratio between house prices and average earnings limits access to the home ownership market and the opportunities for new private industry. Not surprisingly, despite a strong preference for home ownership, given the affordability constraints, few households can afford entry into the market. While land, construction and housing costs are increasing, less new housing is being built. Rising house prices, escalating building costs and declining housebuilding, together with a growing affordability problem, are indicators of the growing crisis in the home ownership market.

In the following two chapters we examine in more detail the dynamics of these processes in Bulgaria. It has been chosen as a case study due to its high level of home ownership. Furthermore, housing policy in the transition period enabled privatisation and deregulation of the housing sector, thus creating favourable conditions for a market-based housing system. These conditions provide an excellent framework for analysis and exploration of changes in the structures of housing provision. They also facilitate a better
understanding of the processes and problems of this transition and therefore assist in assessments of housing reforms and future trends in the production of owner-occupied housing.
The previous chapters have examined the diverse experiences of CEE countries focusing on the impact of housing reforms upon owner-occupied housing provision. An assessment of those interrelated issues in a comparative perspective allows the researcher to conceptualise the process, to identify emerging trends and challenges, but conceals significant variations with respect to the transformation of housing systems in particular local contexts. In order to highlight those differences, the same conceptual framework used in the analysis of the 12 CEE countries is applied to explore the impact of housing reforms on structures of housing provision in Bulgaria. The Bulgarian housing situation, given its unique historical roots, offers both opportunities and challenges as a setting for a case study. On one hand it enables the observation of typical processes associated with the transition to markets: including privatisation, changes in housing finance and subsidy arrangements, the restructuring of housing production, and emerging housing market differentiation in home ownership. On the other hand, it provides a revealing variation in the process of change as it is experienced in local markets.

This chapter evaluates the impact of housing reforms on the production, distribution and consumption of owner-occupied housing in Bulgaria. A set of key linkages relate the economy, the housing market and the behaviour of market-based institutions and actors in the provision system. The analysis explores those linkages in two local markets – Sofia and Bourgas -- focusing on house price dynamics, market differentiation and demand-driven changes in the supply of owner-occupied housing.
6.1. THE CONTEXT: MACROECONOMIC AND POLITICAL INSTABILITY

Bulgaria, with a territory of 110,910 square kilometres, is located in South-eastern Europe, bordering the Black Sea. The population was 8.775 million in July 1995, with a density of 76.2 inhabitants per square kilometre. Nearly 69 percent of households live in the urban areas. Apart from Sofia Plovdiv, Varna, Bourgas and Ruse are the largest urban centres with over 200,000 inhabitants each. Sofia, the capital city, has a population of 1.1 million.

Bulgaria has made considerable progress relative to other CEE countries in establishing a market economy. Several key policies mark its comprehensive reform process: a commitment to privatisation, economic restructuring, reorientation of trade towards Western partners, and encouragement of foreign investment. Though a number of economic reforms were implemented, stabilisation of the economy and promotion of sustainable economic growth are still major tasks ahead. As a background for the analysis to follow, it should be noted that the economy has continued to experience difficulties, and both unemployment and inflation remain very high. Selected economic indicators are presented in Table 6.1.
Table 6.1: Bulgaria: key economic indicators

<table>
<thead>
<tr>
<th></th>
<th>1994</th>
<th>1995</th>
<th>1996</th>
<th>1997¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (% growth)</td>
<td>0.0</td>
<td>3.0</td>
<td>-8.0</td>
<td>-2.0</td>
</tr>
<tr>
<td>GDP per capita (US$ at Purchasing Power Parity)</td>
<td>4,060.0</td>
<td>4,762.0</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Gross nominal monthly wages (December, in US$)</td>
<td>96.1</td>
<td>123.3</td>
<td>82.0</td>
<td>112</td>
</tr>
<tr>
<td>Private sector share of GDP</td>
<td>38.9</td>
<td>45.0</td>
<td>45.0</td>
<td>55.0</td>
</tr>
<tr>
<td>Unemployment rate (%)</td>
<td>12.8</td>
<td>11.1</td>
<td>12.0</td>
<td>13.4</td>
</tr>
<tr>
<td>Annual inflation rate (% change)</td>
<td>89.0</td>
<td>62.0</td>
<td>225.0</td>
<td>70.0</td>
</tr>
<tr>
<td>Trade balance ($ million)</td>
<td>-0.314</td>
<td>-0.009</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Foreign direct investment (US$ million) ²</td>
<td>105.0</td>
<td>150.0</td>
<td>1,428.0</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Notes:
¹ estimates
² Bulgaria has attracted US$ 1.428 million in foreign investment until 1996. Investment flows come mostly from Germany, France, the Netherlands and Turkey (EIU 1996).

Signs of economic recovery were evident in 1995 when GDP increased by 3 percent. Tight fiscal policies reduced the inflation from 471 percent in 1991 to 62 in 1995. However, political instability and the banking crisis at the end of 1996 fuelled an increase in inflation to 30 percent per month¹. Drastic price hikes of fuel, electricity, transportation and non-food items followed. In 1996 the GDP fell by 8 percent, inflation...

¹ In its attempt to stabilize the ‘lev’ (the local currency) devaluing rapidly against most bench-mark currencies, the National Bank of Bulgaria raised the annual interest rate from 108 to 300 percent, and placed one-quarter of the country’s banks under central supervision. Currency deposits of citizens and businesses were frozen.
soared to 225 percent, and the budget deficit reached about 12 percent of the GDP. The magnitude and the depth of this depression, which followed the fragile recovery of 1994-1995, was unexpected.

Although the fundamental economic restructuring created a dynamic, import-oriented private sector, which accounted for 45 percent of GDP in 1995, unemployment remained very high – 13.4 percent in 1997. Domestic demand contracted significantly due to fiscal austerity and restrictive incomes policies. Income growth failed to keep pace with inflation. Nominal monthly wages in 1994-1995 were in the range of US$ 98-123. Experts estimate that cumulative inflation from 1991 to the end of 1996 was 24,000 percent, while wages in 1996 were one seventh of the wages in 1991 in US dollar terms (WB 1997). Those economic difficulties will be directly expressed in the operation of housing markets.

Following the political reforms in 1990 Bulgaria became a parliamentary democracy. Overall the transition period is marked by political instability and uncertainty which aggravated economic hardships and led to a series of ad hoc measures and inconsistent policies. Bulgaria held four parliamentary elections and had eight governments in less than six years. Bulgarian political parties could not resolve their differences, constant political battles between the reformed communist party and the opposition certainly did not contribute to a favourable climate for successful economic reforms. With a banking system in crisis and a rapidly devaluated currency, huge national debt and political instability, the country faced a severe economic and political crisis at the end of 1996. The new government, appointed in April 1997, announced its priorities:
to stabilise the economy and to promote investment\textsuperscript{2}. Furthermore, a currency board, proposed by the International Monetary Fund, was introduced in July 1997 to deal with the economic crisis and to impose strict fiscal discipline. Fluctuating exchange rates will be controlled and the local currency pegged to the DM (1,000 lev: 1DM). Annual inflation is expected to fall to 70 percent and the annual interest rate - to 10 percent.

The transition to a market-oriented housing sector is closely related to processes of economic and political change, deregulation of the economy and the elimination of long-standing production inefficiencies. Housing reforms are being implemented under extremely unfavourable economic conditions, which makes the restructuring of the sector particularly difficult. The poor performance of state enterprises, severe dislocations in the economy, declining output, and contracting demand still remain overriding economic problems. It is against this background of immense financial difficulties, macroeconomic instability and social distress that the recent reform of the Bulgarian housing sector and market dynamics should be understood.

6.2. HOUSING REFORMS AND HOUSING MARKETS: A TALE OF TWO CITIES

Past and new housing policies affect the structure and the performance of owner-occupied structures of housing provision. The major actors and institutions currently defining these structures are presented in Figure 6.2. Housing market dynamics and

\begin{footnotesize}
\textsuperscript{2} A commitment has been made to close sixty-four large, loss-making state enterprises, to speed up privatization and to curb loans to over seventy inefficient state firms (railways, power and heating plants, etc.). More than 58,000 people are expected to lose their jobs.
\end{footnotesize}
processes of housing investment/promotion and production reflect ongoing reforms in the macroeconomic environment — rates of inflation, fluctuation in interest rates and
restructuring of the economy. In addition, extensive housing reforms have fundamentally reshaped the legal, institutional and financial frameworks governing the operation of the home ownership market. The distribution aspects of owner-occupied housing, largely products of the socialist system of non-market allocation, are significant determinants of housing market dynamics, as well as of demand for new owner-occupied housing. On the demand side, housing consumers in the new market-based system have become key actors in the provision system. Their housing status, needs and preferences determine the quantity and quality of new housing produced in local markets. Private housebuilders respond to effective demand, which reflects the demographic characteristics of households, migration patterns, and commuting patterns, but most importantly, income levels. On the supply side, market allocation of housing, marketisation in the supply of basic inputs for housing, and market competition obviously have transformed socialist structures of new housing provision. Other factors at work in the re-adjustment of the system as a whole are changes within the housebuilding industry itself and the growing importance of private sector provision in the supply of new housing. Within that context private landowners, private housebuilders, providers of building materials and services have become the key actors in the investment/promotion and production of owner-occupied housing. State financial institutions, municipal providers of infrastructure and planners have maintained their importance in the provision process, though their roles and responsibilities have been redefined. The social relationships among the key actors and institutions in the promotion, production, allocation and consumption of owner-occupied housing change frequently and need to be examined and evaluated within the
context of wider economic and political restructuring. A set of key linkages integrate the economy, the housing market and the behaviour of market-based institutions and actors in the provision system. These linkages can be examined at the local level focusing on house price dynamics, market differentiation and demand-driven changes in the supply of owner-occupied housing. This is what this chapter sets out to achieve.

6.2.1. A ‘Nation of Home Owners’

The socialist legacy is reflected in most of the characteristic features of the Bulgarian housing system, a system which bears many of the hallmarks familiar in CEE. Thus, the development of housing in the post-war period was increasingly dominated by planned programs of public sector investment. Industrialisation and urbanisation meant that over 85 percent of new housebuilding was concentrated in urban areas. Housing construction companies were state owned, prices of basic inputs — such as land, materials — were tightly regulated.

Within this framework of extensive state control and regulation, however, *home ownership enjoyed comprehensive state support and was the dominant tenure type during state socialism*. The rate of owner-occupation was as high as 74 percent in 1965 and continued to increase during the 1980s\(^3\). Though a large share of the new housing was built by state construction enterprises, it was sold to individual households in accordance with centrally determined allocation principles\(^4\). The prices of those units were regulated

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3 Under state socialism Bulgaria had a sizable number of homeowners; in 1985 about 97 percent of the rural stock and 76 percent of the urban stock was in private ownership. These shares had become 98 percent and 92 percent, respectively, in 1992.

4 Housing was allocated by municipal housing authorities/ or state enterprises on the basis of need. The ‘one-family-one dwelling’ principle was applied.
by national tariffs and there was basically no variation with respect to quality, type and by location (Tsenkova, 1996). What might be surprising is that privately promoted and built housing maintained a considerable share – 35 to 45 percent – of new housing output (Hoffman et al. 1993). However, households had to be registered with the local housing authorities and to acquire a special permit. In general, the Bulgarian government favoured individual ownership of housing and allocated significant production and consumption subsidies to make home ownership universally affordable.

Since 1990 Bulgarian socialist housing policy has been fundamentally restructured, basically as a result of changing political, economic and social conditions. A number of housing policy measures were implemented. With respect to home ownership, several initiatives were central to this reform: the redefinition of property rights, deregulation of housing markets, restructuring of housing production and privatisation of public housing. Progress in each of these areas has been uneven, and difficult to assess. However, the analysis will outline briefly the most significant characteristics defining those experiences and the direction of change.

Of central importance to the operation of the home ownership market were legal reforms introduced in 1990 which enabled the free exchange and sale of privately owned units at market prices. The high level of home ownership and long-standing housing shortages in urban areas led to the emergence of buoyant secondary markets (Zarr 1995). Prices of existing housing were deregulated in February 1990. In addition, marketisation in the supply of basic inputs for newly built housing has affected the prices of building materials and land considerably. Construction costs escalated in 1991 due to elimination
of macroeconomic regulation in the industry and restructuring of production subsidies. Further subsidy cuts contributed to the decreased capital investment in the sector and to the sharp decline in housing output. Although housing finance was formally deregulated, high interest rates discouraged borrowing. The overall impact on new housing construction has been devastating.

Reforms also abolished the long-standing discrimination against private housebuilding which reshaped profoundly existing structures of owner-occupied housing provision (Tsenkova et al. 1996). Access to home ownership, previously determined by administrative procedures, became a function of the financial position of households, their preferences and choices. In this new market reality new housing construction became synonymous with private promotion and speculative development, though alternative forms of provision also continued to exist.

*Privatisation of public housing* contributed to the significant growth of home ownership in the transition period and was one of the few success stories in post-socialist economic restructuring. Between 1989-1994 close to 9.5 percent of the public housing stock was privatised (MRI 1996). Housing was sold to sitting tenants at nationally fixed prices, which were less than 15 percent of the market price. The revenue was channelled into a special fund for compensation of long-term housing deposits eroded by high inflation. Off-budget subsidies in this process of wealth distribution were estimated in the range of 11.6 percent of GDP in 1990 and 6 percent in 1991 (Hoffman et al. 1993). Restitution of nationalised housing and urban land to previous owners provided an important boost to housing markets. Approximately 11,815 units (5,507 in Sofia) were
given back, however a number of other restitution claims are waiting resolution delayed by cumbersome administrative procedures.

The system of owner-occupied housing responded to different reforms in a sporadic, inconsistent manner with uncertainty and change being the key elements of this transformation. In assessing the impacts of housing reforms on structures of owner-occupied provision, some of the conventional notions of privatisation are not appropriate in the Bulgarian case and the simple rhetoric of markets and private ownership is inadequate to capture the reality. A more profound and complex change has occurred in the owner-occupied housing sector which can only be understood through analysis of local housing market dynamics. This is the focus of the following sections.

6.2.2. Deconstructing Home Ownership in Local Markets

Housing provision is structured around regional and local housing markets. Although heavily influenced by national financial and policy regimes, demand and supply processes operate differently at the local level. Housebuilding firms and institutional suppliers tailor their strategies to the varying economic and social profiles of different local housing markets. National conditions of owner-occupied housing provision conceal a number of important differences between regions and localities. These differences have become much more pronounced in the transition period, due to

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5 This nationalized stock contains some of the best and the worst housing in the country. Most properties are in attractive inner-city locations but need considerable investment in renewal and upgrading. In some cases tenants retain their occupancy rights for a period of six years and pay nationally regulated rent to the 'new' private owners.
economic difficulties and increased polarisation between economically distressed and relatively stable urban systems. Therefore, comparing local markets, rather than national statistics for owner-occupation provides an opportunity to situate the analysis better and to identify major trends in a highly dynamic system of housing provision.

Bourgas and Sofia have been selected as conceptually appropriate case study areas for a number of compelling reasons. First - these are high growth regions with respect to housing. Since 1965 additions to the housing stock in Sofia and Bourgas were twice the average rate for the country. From 1985 to 1992 the stock in Sofia increased by 13.7 percent, while in Bourgas the increase was 7.6 percent (NSI 1995). Second - both cities have enjoyed relative economic prosperity during the transition period, which in turn favourably influences housing demand. Third - housing markets emerged quickly in the two cities, with prices 5-7 times higher compared to the national average. Private housebuilding, as expected, has responded to the growing demand, and a sizeable market for newly built housing has developed.

The legacy of the socialist housing system, as noted, is reflected in the distribution of owner-occupied housing in Sofia and Bourgas. Significant differences in housing consumption and quality exist in those local markets. In the market system those differences are reflected in house prices and the housing market position of home owners. Home ownership in Bulgaria conveys mixed images of affluence and comfort, but also of overcrowding and inequalities.

---

6 In Bourgas the industrial and service sectors, tourism in particular, were less affected by the economic recession. Statistics indicate that unemployment was much lower compared to the national average, wages in the public sector were the highest in the country (NSI 1996b). Sofia, as a major financial and business center, continued to play a key role in the management and decision-making of the Bulgarian economy. Both cities developed a dynamic, service-oriented private sector which generated most of the employment growth.
Table 6.2. provides a series of indicators on housing consumption at the national level and in the two cities. The data explore major differences in the owner-occupied sector in Bourgas and Sofia. Recent policy reforms, as discussed earlier, have rapidly altered the existing tenure structure. Thus in 1994 the share of owner-occupied units in Bourgas reached 94 percent, while in the capital city it was 84 percent. Ongoing privatisation of public housing, left to the discretion of local authorities, will also contribute to the further growth of home ownership. However, inherited housing deficits and shortages are reflected in the general indicators of housing consumption in owner-occupation. For example, only 28.5 percent of the households have more than 16 sq.m. of dwelling space per person, which used to be the norm of socialist housing policy. The average floor space per person is low — 15.4 square meters in Sofia and 13.8 in Bourgas respectively.\(^7\)

### Table 6.2: Housing conditions in the owner-occupied sector, 1994

<table>
<thead>
<tr>
<th></th>
<th>Bulgaria</th>
<th>Sofia</th>
<th>Bourgas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of the housing stock</td>
<td>91.70</td>
<td>84.00</td>
<td>94.00</td>
</tr>
<tr>
<td>Household/dwelling</td>
<td>1.04</td>
<td>1.03</td>
<td>1.04</td>
</tr>
<tr>
<td>Square meters/ person</td>
<td>17.00</td>
<td>15.40</td>
<td>13.80</td>
</tr>
<tr>
<td>Persons/dwelling</td>
<td>2.50</td>
<td>2.53</td>
<td>2.86</td>
</tr>
<tr>
<td>Number of units (thousands)</td>
<td>3,164.20</td>
<td>417.80</td>
<td>61.90</td>
</tr>
</tbody>
</table>

\(^1\) The data reflect housing characteristics at the national level.

According to selected density indicators the number of households exceeds the number of dwellings. The housing conditions reflect mostly the legacy of the socialist

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\(^7\) By comparison Western European countries have 30-45 sq.m. per person usable space.
distribution system in the two cities. Despite some housing progress in the late 1980s, overcrowding is still reflected in the ratio of household per dwelling which is as high as 1.04 in Bourgas\(^8\). Housing shortages are a significant push factor affecting demand for new housing in the home ownership market. In Sofia, for example, 46.4 percent of 3 person households live in 1 and 2 room dwellings, 78.9 percent of the four person households live in dwellings with 3 rooms or less, and 5.9 percent of the five person households live in overcrowded conditions. Housing shortages in Bourgas are much more pronounced; Bourgas has a ratio of 2.8 persons per dwelling as opposed to 2.5 in Sofia. A disproportionately high number of households — 64 percent — live in 1 and 2 room dwellings (NSI 1994c). The 1992 Census of Housing and Population revealed for the first time significant ethnic and social inequalities in housing consumption. With respect to occupational status, white collar and managerial workers are better housed compared to blue collar workers. Ethnic minorities are also significantly disadvantaged (NSI 1994e). Differences in housing consumption seriously question the stated objectives of socialist housing policy and its political rhetoric of housing equality.

Though housing quality is difficult to assess due to heterogeneity of supply, significant differences exist in the characteristics of the housing stock. Table 6.3 shows selected quality indicators which can be used to highlight differences in the home ownership market.

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\(^8\) Data from the last Census of Housing and Population in 1992 indicate that a considerable progress in housing has been achieved. Urban households sharing a dwelling, both in the owner-occupied and rental sector, have declined from 32.8 percent in 1985 to 13.6 in 1992. Furthermore the share of overcrowded housing (rental and owner-occupied) which was as high as 49 percent in 1985 declined to 40.4 percent in 1992.
Table 6.3: Quality characteristics of owner-occupied housing, 1994

<table>
<thead>
<tr>
<th></th>
<th>Bulgaria</th>
<th>Sofia</th>
<th>Bourgas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Piped water (% of units)</td>
<td>91.4</td>
<td>99.3</td>
<td>99.0</td>
</tr>
<tr>
<td>Piped sewer (% of units)</td>
<td>86.4</td>
<td>98.6</td>
<td>92.0</td>
</tr>
<tr>
<td>Bath or shower (% of units)</td>
<td>75.5</td>
<td>92.7</td>
<td>85.0</td>
</tr>
<tr>
<td>District heating ²</td>
<td>20.0</td>
<td>74.3</td>
<td>46.0</td>
</tr>
<tr>
<td>Housing built since 1960 (%)</td>
<td>53.9</td>
<td>65.2</td>
<td>71.4</td>
</tr>
<tr>
<td>Units in single-family buildings (%)</td>
<td>55.40</td>
<td>10.80</td>
<td>14.50</td>
</tr>
<tr>
<td>Units in multi-family buildings (%)</td>
<td>44.60</td>
<td>89.20</td>
<td>85.50</td>
</tr>
</tbody>
</table>

Notes:
1) Data relates to the national level.
2) Defined as a percentage of dwellings provided with any heating installation serving one housing estate or one building.


Water supply and sewerage systems are, as far as the limited data allow a comparison, generally better developed in Sofia. Lower levels of infrastructure provision in Bourgas reflect the lower quality of older single family owner-occupied housing in the inner city. Sofia, being the capital city, traditionally has attracted a larger share of state investment in infrastructure and services. For example, district heating is widespread in Sofia, where the share of dwellings serviced by the system is close to 74 percent. The owner-occupied housing stock is relatively new. More than 65 percent of the housing stock in Sofia and 71 percent in Bourgas was built after 1960. However, a large proportion of the housing consists of mass-produced, high-rise apartment buildings. Overall there is a limited choice of housing types, styles and quality levels which is reflected in the high share of apartment buildings – over 89 percent of the stock in Sofia and 85 percent in Bourgas (Table 6.3).
6.3. HOUSE PRICE DYNAMICS: BOURGAS AND SOFIA IN A COMPARATIVE PERSPECTIVE

Following the housing reforms in the early 1990s Sofia and Bourgas developed an active market in the resale of owner-occupied and recently privatised apartments. A burgeoning brokerage industry has emerged in Sofia which serves the largest market in the country (Ivanov and Koen 1995). The situation in Bourgas is quite different. Units are sold often without the assistance of a real estate agent, through advertisements in the local papers and/or personal connections. Given that under state socialism housing markets were non-existent or rudimentary at best, the changes in the last six years have been radical. The number of transactions in the ownership market has increased in the early 1990s and has reached 11,000 in Sofia and 1,708 in Bourgas. In reality, the sales market is much wider since some transactions are registered as gifts, or as exchanges, to avoid taxation, but there is no specific information on their magnitude. The existing home ownership sector has developed rapidly into a secondary market with a level of turnover ranging between 2-3 percent annually.

6.3.1. House Prices and Economic Instability

House price dynamics obviously are an important element of housing market performance and change. Periods of house price explosions are typically followed by periods of stagnation. The nature of price formation in mature markets as a product of the interaction of supply and demand has been well documented in the literature (Ball 1983, 1986).

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Bramley et al. 1995, Fallis 1985). However, in the emerging markets of the transition economies, the unstable macroeconomic environment, and more specifically high inflation and fluctuating exchange rates, are equally important determinants of house price dynamics. The impact of those factors over rapidly developing systems of house prices in the two cities is presented in Figure 6.3 and 6.4\textsuperscript{10}.

In Sofia house price inflation was much more pronounced at the start of the reform. Rapid increases in prices in 1990-1991 had no relation to changes in the consumer price index and/or the exchange rate, but rather reflected the pent up demand for housing. In 1993-1995 the market was sluggish with house prices growing annually by 20-35 percent. But as the cost of providing housing continued to increase due to upward pressures of the cost of materials and finance, house price inflation became endemic for the home ownership market. The turning point was July 1996 when house prices increased by 200 percent following the dramatic devaluation of the lev. Further explosive growth was correlated with the currency shock and the hyperinflationary processes of February 1997.

The high rates of house price inflation have reduced the number of potential buyers substantially. Interviews with real estate agents indicate that at the end of 1996, 30-40 percent of the purchase agreements have failed to materialise. But the fluctuation of house prices in the existing market is not simply a result of external shocks.

\textsuperscript{10} Precise correlation of those variables requires an in-depth analysis of systematically collected data which is beyond the scope of this work. Given the lack of information on volatile housing markets and the rapid pace of economic and institutional change, trends are very difficult to define. Furthermore tax evasion has turned buying and selling into a gray market activity, so sales prices officially reported in the Notary Public differ by a factor of 7-10 from the real transaction prices. Buying and selling of real estate is subject to 10% national and 2% local tax. Within those constraints information will be based on advertised ‘asking’ prices.
Figure 6.3: Changes in house prices: Sofia, 1990-1997

% of change per year

Note: Indicators (CP, ER, HP) reflect percentage of change over preceding year. No accurate data exists for house prices in Sofia. The house price index is calculated on the basis of an unweighted crude averaging of local data for the secondary market provided by real estate agents. Prices are in lev per sq.m. and refer to advertised prices in the prestigious areas of Sofia.

Source: BNB 1996a, House prices based on author's own estimates

Instability is generated by the growing importance of existing owners in the market and by the long-term decline of housing output. In several discussions with representatives of the real estate industry in July and December 1996 it was confirmed that second-time buyers dominate the market in Sofia. Trading up becomes conditional upon the sale of existing property, plus investment of a sizeable amount of personal savings, but it also leads to longer transaction chains and delays, which contributes to market volatility. In addition, rising prices enable existing owners to realise significant monetary gains but also fuel house price inflation.
House prices in Bourgas increased 400 percent in 1990. Though the market was sluggish in 1993-1995, house prices continued to grow much faster than the general rate of inflation in 1992 and 1997 (Figure 6.4).

Figure 6.4: Changes in house prices: Bourgas, 1990-1997

% of change per year

Note: Indicators (CP, ER, HP) reflect percentage of change over preceding year. No accurate data exists for house prices in Bourgas. The house price index is calculated on the basis of an unweighted crude averaging of local data for the secondary market provided by real estate agents. Prices are in lev per sq.m. and refer to advertised prices in the prestigious areas.

Source: BNB 1996a, House prices based on author’s own estimates

Long-standing housing shortages in the city and limited new supply fuelled local house price inflation. Sustained levels of house price inflation reflect the willingness of affluent households to pay much higher prices to improve their housing situation. In 1994-1995 apparently effective demand was much lower and the market relatively flat. During this period newly built housing increased the supply of high quality properties, which contributed to the lack of interest in existing dwellings. However, just as builders gained
confidence and initiated a number of new projects, the macroeconomic instability generated another round of rapid house price inflation in 1996. The drastic change in the currency had serious consequences for the housing market. Real estate agents indicate that sales in that period fell by 50 percent. Not surprisingly there was no trading in local currency in the second half of 1996, all sales were negotiated in US$. In Bourgas first time buyers formed the majority in the market for new housing, but competition with existing owners trading up is considerable, particularly in the ‘old city’.

6.3.2. Submarkets and Differentiation

A new and more diverse system of house prices has emerged within the two cities reflecting quality of the area, accessibility, the level of infrastructure provision and community services. This has resulted in the formation of distinct housing submarkets in the urban structure of all Bulgarian cities. The general trend is towards differentiation in the housing market manifested in a highly differentiated house price map. Those pronounced differences among prices in different submarkets are particularly important for new housebuilding and require an in-depth analysis to follow.

In addition to house price inflation and other influences stemming from the broader context, existing patterns and land uses of Sofia and Bourgas exercise considerable pressure on housing markets. Within the constraints of the existing urban fabric private and public interests compete to acquire advantageous positions and to establish new functions and uses. The hierarchy of house prices is related to those processes and patterns in spatial terms and can be examined in relation to the existing urban structure. Though the two cities show significant historic differences in size, social and economic development, the urban
structures display a number of similarities. Both cities reflect the process of planned urban development under state socialism (Bertaud and Renaud 1994). The administrative command system, which operated without land markets and without prices that reflect the potential of urban sites, led to inefficient land use patterns and the constant expansion of the urban areas. Urban population growth was accommodated through the construction of high rise panel blocks in densely populated housing estates. That development took place on the periphery in areas suitable for large scale industrialised housing production. Urban planning served the needs of a supply-driven housing system, where uniformity and economies of scale were dominant considerations (Tsenkova 1995).

As a result Bourgas and Sofia have several monofunctional residential zones — or 'complexes'— serviced with basic technical infrastructure and community facilities. Under the previous system households had very little choice but to accept the cheap, small, low quality apartments in high-rise blocks. Lack of employment in those residential zones resulted in extensive daily commuting, exclusively on public transport, long journeys to work, and high urban operating and infrastructure costs.

Figure 6.5. shows the existing urban structure of Bourgas with clearly defined central area and peripheral housing estates. Since the 1960s the city almost doubled its population and expanded its residential area along the coast of Atanasovsko Lake and the Black Sea. Five distinct housing estates emerged: Lazur/Tolbuchin, Bratia Miladinovy, Zornitza, Isgrev, and Slavejkov accommodating urban growth. Meden Rudnik, developed in the 1980s, is located in a suburban area with extremely problematic access and an ethnically mixed population.
Figure 6.5: The urban structure of Bourgas
Sofia experienced a similar pattern of urban development under state socialism. The population explosion related to urbanisation and industrialisation during the 1960s and 1970s exercised a lot of pressure on new housebuilding. As shown in Figure 6.6, the city was constantly expanded through the creation of new industrial zones and residential districts. Large scale housing estates — Ljulin 1 to 10, Mladost 1 to 4, Druzba 1 to 3 — were built with more than 260,000 dwellings. Nadezda, Metalurg, Hadzi Dimitar were developed in the 1970s and early 1980s to house mostly blue collar workers needed in the expanding industrial sector. Emil Markov and Dianabad, located in the southern area of the city on the outskirts of Vitosha mountain, due to better transportation services and less industrial pollution, acquired a higher status even under the old planning system. Some of the mature housing estates built in the 1960s — Hipodruma, Iztok and Zapaden Park — despite the poor quality of the stock, disrepair and lack of maintenance, experienced massive increases in prices due to their locational advantages. Lozenetz and Ivan Vasov emerged as the most prestigious areas maintaining the highest price levels in the housing market of Sofia.

The inner cities of Sofia and Bourgas have a spatially defined 'grid pattern' of streets and blocks. The obsession with new housing construction on the urban periphery led to underinvestment in the centre, particularly in Bourgas. Prime, centrally located urban land was underused. Projects for inner city rehabilitation and redevelopment were constantly delayed, and private building initiatives were discouraged. That situation, however, offered immense opportunities for new housebuilding which now tends to cluster in those areas.
Figure 6.6: Spatially defined housing submarkets in the urban structure of Sofia
Those broadly defined urban patterns in the two cities exercise a distinctive pressure on their housing markets. Figure 6.7 illustrates the dynamics of house prices in the secondary market in Sofia. Data relate to three sets of submarkets: high quality areas (Lozenetz and Ivan Vasov), the central area (inner city), and house prices in the peripheral housing estates exposed to industrial pollution (Metalurg, Hadzi Dimitar).

**Figure 6.7: House price dynamics in selected submarkets: Sofia 1990-1996**

![House price dynamics in selected submarkets: Sofia 1990-1996](image)

Note: The house price per sq.m. is calculated on the basis of an unweighted crude averaging of local data for the secondary market provided in newspaper “Sofiiski Imoti” on a quarterly basis for the corresponding year.

* Prices are given in lev per sq m and are not adjusted for inflation.

Source: Author’s own estimates

Despite some variations during the years, in general terms house prices in the most prestigious areas are twice as high as the prices in the least desirable housing estates and approximately 20 percent higher than in the inner city. What is surprising though, is that
those relationships remained relatively stable during the 1990s. One might expect that higher quality properties would experience greater increases in prices.

A similar analysis was carried out for Bourgas in order to facilitate comparisons.

Data on house price variations for selected markets is presented in Figure 6.8.

**Figure 6.8: House price dynamics in selected submarkets: Bourgas 1990-1996**

Note: House prices are calculated on the basis of an unweighted crude averaging of local data for the secondary market provided by real estate agents and in newspapers “Imoti” and “Tsentromorski Letopis” on a quarterly basis for the corresponding years.

* Prices are given in lev per sq.m. and are not adjusted for inflation.

Source: Author’s own estimates

Given the existing urban structure the following submarkets were defined: high quality areas in the urban core and pockets of housing development along the Black Sea, the inner city, and a peripheral housing estate with the lowest price — Meden Rudnik.
Though prices in Bourgas are considerably lower than those in Sofia, house price inflation follows a very similar pattern. Differences between the high and the low end of the market have become much more pronounced with the time. Prices in Meden Rudnik are 40 percent of the prices in the urban core. Housing in high quality areas is 28 percent more expensive compared to the central areas. Anecdotal evidence suggests that the market has become saturated with low quality, undesirable apartments in Meden Rudnik which are difficult to sell.

6.4. THE FACTORS INFLUENCING EFFECTIVE DEMAND

Effective demand refers to the ability of households to purchase owner-occupied dwellings. The process of buying a specific dwelling in a given location at a spatially determined price is a complicated decision-making procedure. Key variables that facilitate or constrain those choices include the housing needs of the household and its composition, income and preferences. These variables directly or indirectly influence one another and produce a series of outcomes in the housing market reflected in the demand for housing. Successful operation of the market implies the correct anticipation of effective demand and consumer requirements. Housebuilders, led by those estimates, attempt to forecast the future size of the local housing market. At the fundamental level of explanation one needs to analyse the demographic context, income distribution, house prices and affordability. The institutional provision of mortgage finance is also an important determinant. The following sections explore those issues in more detail.

It is very difficult to assess the impact of the transition process on the demographic processes in Bulgarian cities. Nevertheless the limited data highlights the
most important trends which need to be considered in the analysis of effective demand in home ownership markets. The overall population of Bulgaria declined by 600,000 in the 1990s due to a net natural population decrease and emigration. Bourgas and Sofia, by contrast, experienced modest urban growth. Additional housing demand occurred in the two cities after the residency restrictions under socialism were relaxed. Economic restructuring and employment growth in the transition period have encouraged internal migration to those regions. Information on household characteristics in the two cities is provided in Table 6.4. Family households, 2- and 4-person households in particular, dominate the demographic structure of Bourgas. By comparison households in Sofia tend to be smaller — average size is 2.6 compared to 2.9 in Bourgas. The share of single person households has increased during the transition period and is as high as 25 percent in Sofia. Close to 38 percent of the family households have no children, another 33 percent have only one child. In general, the rate of household formation in the Bulgaria has slowed down due to population decline, and delayed marriages (NSI 1994 c,d).

Table 6.4: Structure and size of households 1994

<table>
<thead>
<tr>
<th>Household type</th>
<th>Sofia</th>
<th>Bourgas</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>total bhds</td>
<td>family bhds</td>
</tr>
<tr>
<td>Total # households</td>
<td>442,710.00</td>
<td>270,306.00</td>
</tr>
<tr>
<td>Distribution of households according to size (%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>25.56</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>26.07</td>
<td>37.96</td>
</tr>
<tr>
<td>3</td>
<td>23.22</td>
<td>32.48</td>
</tr>
<tr>
<td>4</td>
<td>19.73</td>
<td>27.17</td>
</tr>
<tr>
<td>5+</td>
<td>5.42</td>
<td>2.39</td>
</tr>
<tr>
<td>Average household size</td>
<td>2.60</td>
<td>2.90</td>
</tr>
</tbody>
</table>

Source: NSI 1994e
The new economic conditions have brought significant changes in the income distribution of the population. The inflation adjusted income of most social groups has declined. Overall, in 1995 the real average monthly income per person reached 50 percent of the 1990 levels. Households spend 20 times more on basic necessities per month in 1995 compared to 1989 levels. It is important to note that official statistics on income distribution fail to include managers and employees for Western companies who might earn salaries that are 15 - 20 times higher than the average. Also, employees in the private sector often receive two or three times their official salaries in cash payments financed by unreported enterprise revenues. Some experts estimate the size of the ‘hidden’ economy to be as high as 30 percent of GDP, therefore official income data is hard to interpret.

Despite the general confusion and inconsistencies over changes in income, it is widely recognised that income differentiation increased dramatically during the transition. The Gini coefficient which measures income inequalities increased from 2.1 in 1991 to 6.5 in 1995. In 1995 the ratio of average household income in the highest and lowest income quintile in Bulgaria was higher compared to other European countries such as Germany, Sweden, Belgium. Income growth was much higher in the finance and insurance sector, where wages increased 35 times between 1990-1995. In the industrial sector, and in construction, wages grew 22 times on average. Parallel to sectoral income differentiation, the polarisation among occupational categories also increased: particularly between managerial and blue collar workers (NSI 1996a). While income

11 The data refers to prices of 13 major groups of products and services monitored by the National Statistical Institute: food, clothing, housing, utilities, transportation, taxes, education, etc. (NSI 1996a).
differentiation is a logical outcome of transition to markets, the very high share of economically disadvantaged households in the new market-oriented system represents a serious problem. It might not be surprising, but a high proportion of those marginalised households consist of retired individuals, forming 25 percent of the total population (NSI 1994b). For those marginal home owners maintenance and utility costs present a considerable burden.

Rapidly emerging income differentiation has crucial implications for the housing market. The result of the changing income distribution and attitudes in society is a demand for high quality flats and single family homes emanating from the new middle/upper class. High income groups are willing and also able to invest in improvements of their housing situation which should spur an increase in new housebuilding.

However, low wages and employment uncertainty, coupled with high housing costs and mortgage rates have reduced overall housing demand for owner-occupied housing. Given the high level of house price inflation, fuelled by economic instability during the transition period, house price-to-income ratios are expected to remain high (Table 6.5). Despite the recent decline in those ratios, which was more pronounced in Bourgas compared to Sofia, it nevertheless takes fourteen annual salaries of a dual income household to purchase a standard apartment in Sofia. Data indicate that housing has become more affordable in Bourgas in the mid 1990s, which might be explained with the better functioning of the housing market and increasing new housing supply. Still, price-to-income ratios from 8:1 to 14:1 exclude a large segment of the newly formed
households from access to home ownership. In addition, utilities consume close to 8.6 percent of the average household budget. By far, the biggest housing problem facing home owners is the maintenance of high-rise apartment buildings where home owners are struggling to raise money for repair and improvement.

Table 6.5: Housing costs in the owner-occupied sector, 1989-1995

|--------------------------|-------|-------|-------|-------|-------|-------|-------|
| **Average annual household income**
| Sofia (thousands lev)    | 6.50  | 9.73  | 26.42 | 47.41 | 69.88 | 116.75| 132.00|
| **Average monthly utility expenditure in housing** (%)
|                           | 7.2   | 7.3   | 7.3   | 7.3   | 8.1   | 8.4   | 8.6   |
| **Average monthly expenditure on food** (%)
|                           | 40.9  | 36.3  | 47.4  | 43.4  | 42.9  | 43.7  | 50.3  |
| **Sofia house price**
| (av. 75 sq.m. apartment - thousands lev) | 21.00 | 206.00| 486.00| 750.00| 937.00| 1,612.00| 1,875.00|
| **Bourgas house price**
| (av. 75 sq.m. apartment - thousands lev) | 21.00 | 120.00| 312.78| 345.00| 525.00| 1,121.50| 1,342.50|
| **House price/Income ratio**
| Sofia                      | 3.4   | 21.16 | 17.71 | 15.82 | 13.41 | 13.81 | 14.2  |
| **House price/Income ratio**
| Bourgas                    | 3.4   | 19.23 | 12.0  | 14.38 | 11.67 | 8.35  | 8.84  |

Note:
1) The data refers to dual income households, which is the norm in Bulgarian labour markets.
2) National average expenditure patterns
3) House prices relate to a standard 2 bedroom apartment in the central areas.

Source: NSI 1993, NSI 1996a, Author's own estimates.

Home ownership is perceived as a desirable and good investment in an inflationary context. Investment in housing is economically attractive for individual
households, who channel a large fraction of their savings into improving their housing situation. Notwithstanding these preferences, first-time buyers face significant financial constraints. It is expected that only less than 5 percent of the households (currently living in overcrowded conditions, sharing the home with parents or still queuing for housing through the former socialist system of registration) will be able to enter the home ownership market. Nevertheless demand from second-time buyers will have a substantial impact on the supply of new housing in particular.

A conventional market-based system of housing finance does not exist in Bulgaria. The impact of housing reforms on this sector has been insignificant. The state-owned Savings Bank (SSB) accounts for over 90 percent of total housing credits. Though legally all commercial and private banks can issue mortgages or short-term construction credits, lenders have been reluctant to get involved in housing. High interest rates, low incomes, escalating construction costs, and a preponderance of short-term liabilities make lending for housing unattractive. SSB operates with a standard mortgage with an interest rate adjusted on a monthly basis payable over 25 years.

Lending under state socialism provided home owners with a 25 year mortgage with an interest rate of 2-3 percent. This was one form of consumer subsidy which contributed to the expansion of that tenure. Bulgaria had a high level of private investment in housing with correspondingly high loan volumes (Baross and Struyk 1993). With inflation as high as 470 percent in 1991, the SSB raised the interest on outstanding loans to recover part of the losses due to the major difference in rates (Ravicz 1992). Still ‘old loans’ and households with long-term housing deposits received preferential
treatment\textsuperscript{12}. In addition, borrowers were given the option to prepay the outstanding loan before the interest rate adjustments in 1991.

Figure 6.9 shows the relationship between interest rates, inflation and the exchange rate. A striking feature is the volatility of interest rates. Though very high by Western standards, they are still negative in real terms. Changes in the basic rate are much more closely related to the consumer price index than to fluctuations in the exchange rate.

Figure 6.9: Dynamics of selected macroeconomic indicators

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure6.9.png}
\caption{Dynamics of selected macroeconomic indicators}
\end{figure}

\textsuperscript{12} A Housing Construction Fund has been established for financing of new housing construction and/or the purchase of existing housing. Compensation is allocated to individual households with long-term housing deposits at the State Savings Bank, according to a point system (Gospodinov 1994). A number of restrictions apply. Revenue comes from the privatization of state/municipal housing and budget allocations. Reportedly the subsidy is sufficient to buy less than 10 square meters of housing space in larger urban centers.
High interest rates (38-50%) until 1995 certainly discouraged borrowing and are particularly damaging for new housebuilding. The number of mortgages at the national level has declined from 40,180 in 1991 to 2,985 in 1995, mostly issued to households buying state owned housing units at submarket prices. Though data for 1996 are not available, one might expect that mortgage activity was virtually non-existent with interest rates over 300 percent. Despite the conservative lending policies of SSB, the value of overdue loans has increased to 74 million lev and there were 1,207 foreclosures in 1995 (Table 6.6).

Table 6.6: Credits for construction and purchase in the private sector

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of loans</td>
<td>40,180.00</td>
<td>12,077.00</td>
<td>9,636.00</td>
<td>5,557.00</td>
<td>2,985.00</td>
</tr>
<tr>
<td>Amount of loans (mil. lev)</td>
<td>345.94</td>
<td>193.96</td>
<td>330.56</td>
<td>240.29</td>
<td>305.54</td>
</tr>
<tr>
<td>Average amount of loans</td>
<td>8.60</td>
<td>16.00</td>
<td>34.30</td>
<td>43.24</td>
<td>102.40</td>
</tr>
<tr>
<td>(thousands lev)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of outstanding loans</td>
<td>636.00</td>
<td>474.48</td>
<td>321.37</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>(thousands)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount of outstanding loans</td>
<td>3,369.90</td>
<td>2,995.20</td>
<td>2,194.10</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>(mil. lev)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Old housing loans granted</td>
<td>9.83</td>
<td>23.86</td>
<td>53.49</td>
<td>68.43</td>
<td>74.00</td>
</tr>
<tr>
<td>before 28.01.1991(mil.lev)</td>
<td>n/a</td>
<td>77.56</td>
<td>69.00</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Share %</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount of overdue loans</td>
<td>9.83</td>
<td>0.79</td>
<td>2.41</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>(mil. lev)</td>
<td>n/a</td>
<td>n/a</td>
<td>509.00</td>
<td>783.00</td>
<td>1207.00</td>
</tr>
<tr>
<td>Mortgage arrears rate %</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreclosures</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: SSB 1996, 1995
In the absence of a market-based housing finance system, households have been self-financing new construction on an instalment basis which will be discussed in more detail in Chapter 7. Existing homes are typically purchased using a single cash payment. Credits for new housebuilding (up to 70 percent of the appraised value) are given for 2 years in which the dwelling needs to be completed. After that period the loan is payable under the same conditions as a standard mortgage. SSB requires an existing dwelling as a collateral. These conditions, and inadequate mortgage instruments, have paralysed housing finance and choked off demand. Without access to formal housing finance the circle of housing investors is reduced considerably. This acts as a significant barrier for the efficient performance of housing markets.

6.5. BUILDING FOR THE HOME OWNERSHIP MARKET

A massive decline in housing output was the initial effect of the retreat by the state from the provision of housing. Though private housing investment increased considerably, it was not sufficient to offset the massive decline in state subsidies. Housing investment was only 0.8 percent of GDP in 1994, a considerable drop compared to 1990 levels of 1.5 percent.

The production of new housing decreased dramatically from 7 units/1,000 in the 1980s to a record low of 0.9 units/1,000 in 1994. In the mid 1990s, housing completions had fallen to an extremely low level of 6,815 units. As indicated in Table 6.7, housing output in 1996 was only 12 percent of the output reached in 1988. This low level of growth barely matches the traditional volume of demolitions in the existing stock.
Private housing development has a long tradition in Bulgaria and maintained a high share during the transition from planning to markets. However, public development exceeds private in the total housing output in 1990-1995 and is as high as 75 percent in 1992-1993. Housing built by the public sector is mostly produced for owner-occupation and financed by housing co-operatives, municipalities and enterprises. Since the start of the reform unfinished dwellings and construction delays associated with the explosive increases of construction costs became endemic. Work-in-progress officially represented over 107 percent of the annual output in 1992; by 1993 it reached over 300 percent.

![Table 6.7: New housing output in Bulgaria by type of developer, 1988-1996](source: NSI 1996b, 1993)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Units per 1,000 inhabitants</td>
<td>7.00</td>
<td>4.5</td>
<td>2.9</td>
<td>2.1</td>
<td>1.9</td>
<td>1.3</td>
<td>1.0</td>
<td>0.8</td>
<td>0.9</td>
</tr>
<tr>
<td>Number of units (thousands)</td>
<td>62.78</td>
<td>40.53</td>
<td>26.04</td>
<td>19.38</td>
<td>17.99</td>
<td>11.02</td>
<td>8.66</td>
<td>6.81</td>
<td>7.60</td>
</tr>
<tr>
<td>Units by private investors (thous.)</td>
<td>33.09</td>
<td>22.25</td>
<td>12.77</td>
<td>5.95</td>
<td>4.26</td>
<td>2.75</td>
<td>3.32</td>
<td>3.20</td>
<td>4.10</td>
</tr>
<tr>
<td>Share of private output (%)</td>
<td>52.7</td>
<td>54.9</td>
<td>49.1</td>
<td>30.7</td>
<td>23.7</td>
<td>25.0</td>
<td>38.4</td>
<td>46.9</td>
<td>53.9</td>
</tr>
<tr>
<td>Share of public output (%)</td>
<td>47.3</td>
<td>45.1</td>
<td>50.9</td>
<td>69.3</td>
<td>76.3</td>
<td>75.0</td>
<td>61.6</td>
<td>53.0</td>
<td>46.0</td>
</tr>
<tr>
<td>Industrialised units (%)</td>
<td>66.7</td>
<td>67.0</td>
<td>69.0</td>
<td>71.1</td>
<td>76.0</td>
<td>69.0</td>
<td>64.0</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Decline in output levels compared to 1988 = 100 (%)</td>
<td>100</td>
<td>64.56</td>
<td>41.48</td>
<td>30.87</td>
<td>28.66</td>
<td>17.55</td>
<td>13.79</td>
<td>10.84</td>
<td>12.10</td>
</tr>
</tbody>
</table>
State-built projects in the pipeline are gradually completed which partially explains the high share of public investment in housing during the transition (Tsenkova, 1996).

The impact of the continued economic crisis on new housing provision has been particularly strong. Both private and public sector developers face extreme financial difficulties and uncertainty. Though output contracted rapidly, as indicated in Figure 6.10, the private sector has gained considerable strength and appears to have emerged out of the crisis in 1995-1996. Preliminary statistics indicate that in the first quarter of 1997 private output in Bulgaria has reached 1,486 units which is 40 percent more compared to the same period in 1996.

Figure 6.10: Privately developed housing* in Bulgaria, 1988-1996

* Completions
The data on units per 1,000 inhabitants relate to total output — private and public.

Note: The statistics do not distinguish completions by private firms and individuals. The term ‘developer’ is used to determine private or public financing and control over the construction process. Usually the actual production during socialism was carried out by state construction enterprises and in some cases by individuals in privately promoted housing. Though private housebuilding has existed for more than six years, there has been no adjustment so far in the statistical categories to capture the activity of private firms.
The large number of unfinished dwellings is a major problem for private developers. For example in July 1995, an estimated 59,547 units were under construction – 71 percent in the private sector. Close to 92 percent of the housing starts are privately financed (Dimitrov 1996). Anecdotal evidence suggests that significant shifts from self-promoted to speculative built housing in the large urban centres have occurred, though self help is still the norm in rural areas and smaller towns.

The dynamics of new housebuilding in the two cities mirrors the overall situation in the country. Nevertheless the situation in Sofia is much more problematic. New housing output in 1995 was a third of the 1990 level, while in Bourgas it has reached 73 percent.\textsuperscript{13}

Table 6.8: New housebuilding in Sofia and Bourgas, 1993-1995

<table>
<thead>
<tr>
<th></th>
<th>Sofia</th>
<th></th>
<th>Bourgas</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>private</td>
<td>public</td>
<td>private</td>
</tr>
<tr>
<td>1993</td>
<td>build.</td>
<td>14</td>
<td>23</td>
</tr>
<tr>
<td></td>
<td># units</td>
<td>25</td>
<td>1900</td>
</tr>
<tr>
<td></td>
<td>unit size</td>
<td>139</td>
<td>101</td>
</tr>
<tr>
<td></td>
<td># rooms</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>1994</td>
<td>build.</td>
<td>135</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td># units</td>
<td>392</td>
<td>559</td>
</tr>
<tr>
<td></td>
<td>unit size</td>
<td>124</td>
<td>101</td>
</tr>
<tr>
<td></td>
<td># rooms</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>1995</td>
<td>build.</td>
<td>16</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td># units</td>
<td>906</td>
<td>1173</td>
</tr>
<tr>
<td></td>
<td>unit size</td>
<td>131</td>
<td>111</td>
</tr>
<tr>
<td></td>
<td># rooms</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: NSI - Sofia 1997, NSI - Bourgas 1997

\textsuperscript{13} In 1990 privately developed housing in Sofia declined to 1,965 units, while the public sector output was 4,586 units. The balance was roughly the same in Bourgas where private output was 298 units, compared to 689 units in the public sector (NSI 1993).
Privately developed housing is increasing steadily in Sofia, from 25 units in 1993 to 906 units in 1995, but it still less than 45 percent of the total housing output (Table 6.8.). By comparison, in 1995 private investors account for 83 percent of the housing output in Bourgas. Housebuilding has increased steadily from 72 units in 1993 to 486 in 1995. In general, privately developed housing in the two cities has 2-3 rooms, units are 15-20 percent larger compared to the average size of public units, but there is a tendency of unit size to decrease which might be due to higher prices and shrinking demand. Although private housebuilding is affected by the continued recession, escalating construction costs and falling real incomes, it has shown a surprising economic vitality.

Official statistics do not reflect the complexity of the production in new housebuilding. Recent developments indicate that private housing takes 18-24 months to complete, so the level of private output will no doubt increase in the following years given the number of projects already in the pipeline. Furthermore, much of the new housing is already built but is not in use due to the lack of co-ordinated municipal investment in infrastructure (e.g. a number of completed dwellings lack sewer, water supply). Official statistics will register these dwellings as completed after their approval by the municipal regulatory commission.

The post-socialist transition in Bulgaria has brought a significant change in the system of owner-occupied housing provision. This chapter evaluated the impact of housing reforms on the owner-occupied sector focusing on local housing market dynamics in two buoyant markets. The research explored the increasing differentiation in housing consumption with respect to prices and quality. It was argued that economic and
political instability, fluctuations in interest rates, high inflation and unstable exchange rates, fuelled house price inflation and affected the performance of owner-occupied markets. The changing profile of housing demand substantially influenced the supply of new housing. Housing production, previously dominated by state enterprises, was transformed in a radical manner. State kombinats, currently undergoing privatisation, had to face a new competitor – the private housebuilding industry. Taken together those processes have set the scene for the restructuring of the housing provision system. The social relationships between key agents in the system will be explored in the next chapter.
The discussion of changing structures of owner-occupied housing provision requires an in-depth analysis of the system and its key elements. The economic and social relationships between the principal agents in the different stages of the housebuilding process need to be considered and their performance evaluated. Then the analysis focuses on the newly emerging private housebuilding industry evaluating its economic, social and dynamic efficiency.

7.1. OWNER-OCUPIED STRUCTURES OF HOUSING PROVISION: PRINCIPAL ACTORS AND SOCIAL RELATIONSHIPS

The housing development process comprises several stages: promotion, investment, construction and marketing (Ambrose 1991, Ball 1983). It is not a unified sequence of events and varies according to the type and scale of development, the location (e.g. green-field, suburban or inner-city) and the agencies involved. The potential for wide variations among different contexts, however, raises the necessity to focus on key actors and their social relationships. To understand the nature of those relationships, and given the specifics of owner-occupied markets in Bulgaria, those discrete stages need to be analysed with particular emphasis on the agents controlling and managing the whole process. As shown in Figure 7.1, private housebuilders have a critical role and are involved in all stages of the provision chain, but also interact with several key economic agents: landowners, housing consumers, planners, architects, the
construction and building materials industry. The following sections explore these processes in more detail. Special reference is made to the economic rationale shaping strategies in the marketplace and to emerging conflicts and social struggles.

Figure 7.1. Structures of owner-occupied housing provision in Bulgaria: stages and actors

7.1.1. The Private Housebuilders

Private housebuilders, predpribemachi, are the new agents in the owner-occupied market with a growing importance and a strategic role in the provision of new housing. As was discussed in chapter 6, during socialism state monopoly over local housing production in larger urban centres was the managerial goal of the 1980s. Much of the housing in the peripheral estates was built under the concept of ‘one client, one designer, one builder’. Though households in the Bulgarian system financed a significant share of new housing construction, actual building was contracted out to the state construction companies, who acted as developers. In the new reality of housing markets and a radical
transformation of real estate, the private housebuilding industry has emerged as the new
developer of owner-occupied housing. Still, relationships with landowners and housing
consumers are very diverse and arrangements in different projects might vary
significantly, but the research will identify major trends and patterns in the process.

Housebuilders are now managing the entire development process from
identification of the site, through planning negotiations, land provision, supply of
building materials and equipment, labour contracts, marketing and financing to the final
sale of dwellings. It is important to distinguish between the private housebuilder (the
developer) and the builder or contractor. A variety of firms are currently operating as
housebuilders, performing the function of both a developer and a contractor. Estimates
suggest that about 95 firms in Bourgas and 900 in Sofia are actively involved in
housebuilding and have established a significant presence in the housing market\textsuperscript{1}.

A systematic analysis of private housebuilding requires a reference to several key
characteristics: classification of firms according to output levels and number of
employees, market share, type of product and turnover. At the time of writing no research
on the topic has been carried out. Statistics also fail to capture this relatively new
phenomenon in the transition process. Given the severe information constraints, a profile
of the private housebuilding industry is presented based on interviews with

\footnote{The statistical information does not distinguish the housebuilding sector from all other construction
activities. This lack of statistical clarity reflects the understanding that there is no housebuilding industry as
such. Most of the firms are involved in residential as well as non-residential activities depending on local
demand. However, the analysis here will center on firms which are by and large involved in housing
construction. Though some data exists on investment patterns for 1993 and 1994, it is insufficient to define
the scale of residential operations. In general, the statistical agencies have been very slow to recognize the
existence and dynamics of the private construction industry, so there is no information on number of firms,
turnover, etc.}
presidents/managers of 40 firms in Sofia and Bourgas. Though incomplete sampling frames are a disadvantage with respect to the representation of the private development activity in each city, it was felt that the surveys would yield a strong message about entrepreneurial strategies and housing market environments. The rapid pace of economic, political, legal and institutional change during 1990-1997 make time-series data extremely difficult to create and monitor. Thus the analysis will focus on the present situation, but will also identify trends and future prospects for the industry. In the interest of brevity, details on sampling methodology, and the survey strategy employed are given in Appendix 2. The survey questionnaire is included in Appendix 3.

On the basis of annual output figures several types of housebuilders might be distinguished: a) small firms, b) medium size firms and c) large firms (Figure 7.2).

**Figure 7.2. Housebuilding firms classified according to output and number of employees**

![Graph showing housebuilding firms classified by output and number of employees.](image)

Source: Author’s survey results
Small firms are often family owned or one-man operations producing 10-20 dwellings per year. Medium size firms (57 percent in the sample), building between 21-50 dwellings annually, dominate the industry. The profile of those firms is very diverse, it includes new entrants in the housebuilding sector, 'jobbing builders grown big', and/or former state enterprises recast as private entities, providing in most of the cases a number of other non-residential construction services. Large housebuilding firms (18 percent in the sample) build more than 50 dwellings per year. Several volume housebuilders have an annual output of 150 - 250 units. Most of the large firms tend to be involved in construction of commercial and mixed use projects or infrastructure provision. In part this is due to volatile housing demand, but also to ambitions for greater financial stability. All housebuilders, with only two exceptions, tend to be specialised in particular localities.

Another classification by number of employees indicates that small output levels do not necessarily correspond to a small number of employees (Figure 7.2). Contrary to expectations, 71 percent of the firms interviewed have 100-200 direct employees, while 17 percent employ more than 200 people. One possible interpretation of these results is that traditionally built housing production is labour intensive requiring a low skill labour component, which is relatively inexpensive and in abundant supply. Furthermore, work-in-progress exceeds 3-5 times the annual completions, construction time is 18-24 months and is often subject to delays. Moreover, on-site production is not necessarily carried out in the most efficient manner. While those propositions are difficult to test empirically, they were supported with evidence from the survey.
The distinctive nature of legal and economic ownership of major housebuilding firms governs their actions and strategies. Most of the small and some of the medium size firms are registered as a sole proprietorship or as a sole trader\(^2\). Some have a large share of family holdings and are a very personal product of its founder. Medium and large size housebuilders are in most cases a limited liability company or a limited partnership. Volume housebuilders are owned by large construction companies with a diverse portfolio of operations.

Medium size firms have a growing importance in private housebuilding which indicates that there is little concentration of production and no significant dominance in the market. Entrance to the industry is relatively easy, but the possibilities of resource switching between types of construction activities and product types are also numerous. Most of the presidents and/or managers interviewed had previous experience in the construction industry or were trained as civil engineers or architects. The entrepreneurial history and the evolution of the firm was often related to success stories of growth and expansion, at least until the crisis in 1996. However, sources of finance and strategies for capital accumulation were obscure.

Based on field observations, interviews and empirical results from the survey the following typology of housebuilders emerges:

- **Small housebuilding firms** are in most of the cases driven by the energy and aspiration of a single entrepreneur with significant experience in the construction

\(^2\) According to the existing regulations businesses in Bulgaria may be established in the following forms: Sole Trader, Commercial Company, General Partnership, Limited Partnership, Limited Liability Company, Sole Proprietorship Ltd., and Public Limited Company.
business. Often those will be contractors with limited ambition who have less than 20 employees and concentrate their efforts on 2-3 sites.

- The medium size housebuilder is usually a family firm or a limited liability company with relatively stable completion rates in low tech, small scale projects. The firm emphasises traditional values, personal relationships with clients, mutual trust. In principle it avoids borrowing and keeps a low marketing profile. The number of employees ranges between 50 - 150. Though some of the medium size firms were optimistic about their profits and future prospects, most of the housebuilders have resorted to conservative strategies and focused on completion of work-in-progress.

- Large housebuilders operate on larger green field sites or hold a wide range of land development options tied into different stages of the production cycle. Employees are often 160-200, though several volume builders have more than 500 workers. Not surprisingly those agents are much more visible in the marketplace and in local politics. Economies of scale, particularly in the case of volume builders, allow them to offer lower prices and shorter completion time. Several firms are able to provide internal short-term mortgage to prospective buyers. Though technological capacity and internal structure of the firm allows a more flexible organisation of housing production, large housebuilders are much more exposed to risk and failure. Some of those firms find it very difficult to succeed in the present environment and have never come to terms with the explosive inflation in the prices of building materials, shrinking demand and devaluing currency.
In general, as a result of size, organisational structure, form of ownership and management, the housebuilding firms have a different potential for marketing and investment strategies. Changes in the housing market affect their strategies for survival or growth in different ways. Those issues are discussed further with reference to the economic and dynamic efficiency of private housebuilders.

7.1.2. Other Principal Agents

The landowners have become key players in the provision of new housing. During the transition from planning to markets their position has changed dramatically. Under state socialism landowners were marginalised, since Bulgarian cities developed largely in the absence of land markets. Land had no explicit value and formed an insignificant part of the development costs (less than 1 percent). In the new system the price of land is usually expressed as a percentage of the newly built owner-occupied housing. The majority of the housebuilders employ a 'residual valuation technique' to estimate the possible value of land. The method basically requires all costs of buildings, site preparation, technical infrastructure provision, environmental improvements, etc. to be calculated at current prices. Professional charges and fees are added. The sales revenue is calculated on the basis of current market prices for the type of housing built. The housebuilder's profit margin is 10 - 12 percent on gross sales while the remainder is the expected land price.

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3 The state or municipality had the right to acquire privately owned land for new housing construction through compulsory purchase. Landowners were compensated through dwellings which corresponded to their housing needs. As the price of land and the dwelling itself were nationally regulated, it was often the case that landowners had to pay an additional amount towards the sale price of the unit.
These principles, however, are not necessarily implemented in a consistent manner. Due to shortages and imbalances in the selection of sites, various planning restrictions and legal barriers with respect to ownership rights, centrally located urban land with clear title has reached record high prices at the start of the reform process. There is a direct struggle over profits between landowners and housebuilders, subsequently affected by the potential of the site, the state of the local housing market, and the expected profit margins. Housebuilders need a wide range of sites in key housing markets to ensure a steady flow of land for development and to maximise their profits (Ball 1983, Barlow and Duncan 1994, Barlow and King 1991). Appropriate land strategies are crucial for the success and marketability of new housebuilding.

The homebuyers in the new housing market have a diverse profile. Interviews with estate agents and housebuilders indicate that in most of the cases those are affluent households, increasingly upper class professionals and representatives of the new business elite. In Sofia the market is dominated by second-time buyers trading up (owners of small or peripheral housing), while in Bourgas housebuilders serve the higher end of the first-time buyers market. In both cities the share of speculative investors is significant. In general, lack of other investment opportunities, delayed privatisation, and economic uncertainty are major driving forces behind speculative investment in housing. Housing continues to be perceived as the most secure type of investment. However,

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4 A survey done by information agency “Imoti” highlights important characteristics of consumer attitudes with respect to investment opportunities. The agency interviewed 500 people living in Sofia from different economic and social backgrounds representing the participants in the real estate market. Close to 36 percent prefer to invest in real estate while only 26 percent prefer to invest in a private business. Given the instability of the economic environment and devaluation of the currency, the low share (8.9%) of consumers willing to maintain high saving levels is not surprising (Imoti 20/04/94).
most of the effective demand comes from individual households who are struggling to improve their housing situation. Housing shortages and inadequacies in housing consumption are no doubt a significant factor in these investment decisions. Thus a recent survey by the information agency “Imoti” indicates that 60 percent of the households purchase dwellings to solve their housing problem, 23 percent invest their savings to protect them against inflation, and only 8 percent perceive this as a business strategy (Imoti 17.01.1995).

The planners have a critical input in the provision of new housing. Planning, through zoning, densities and requirements for the provision of social facilities, influences development costs and opportunities. On the planning side there is a long standing debate on various issues such as the form of planning control, flexibility of the planning system, effectiveness in response to the market, and planning constraints causing land shortages (ECE 1996a,b). Planners in Bulgaria, despite attempts to streamline the process and facilitate private development, are hostile to private housebuilders. It has been repeatedly confirmed in the interviews that development control and planning regulation in Sofia and Bourgas substantially influence the land market, and in certain areas restrict land supply with a negative impact on house prices. In a situation of growing market instability at the end of 1996, housebuilders are reluctant to go through the lengthy process of planning approvals. Administrative planning delays, often due to lack of resources and staff in the planning departments or unclear ownership of the land, were six to ten months on average in the two cities. Sofia has a two tier system of planning control, which makes the process even more complicated.
Overcoming the barriers of bureaucracy is a lengthy and expensive process, ‘a game with two sets of rules: planning and political’. Housebuilders often referred to red tape and corruption in the interviews. Planning delays have clear consequences for housebuilders: decreasing profit associated with changes in market conditions, ad hoc solutions or redirected potential investment.

Planners on the other hand expressed frustration with frequent violation of plans, building heights and design guidelines in the construction process. Housebuilders often employ those strategies to acquire additional space and increase profits as part of the ‘numbers game’.

The architects are the interface between private developers’ interests and the planning system. The technical skills of the architect are required in the design of the site plan and the preparation of a set of detailed drawings for planning approval. There is virtually no standardisation in new housing production in Bulgaria, so every building requires a specific architectural project. In their practical work architects have become an integral part of the whole development process – starting from the initial consultations in the process of site identification through negotiations with the landowners, through the marketing of units and subsequent adjustments in the design and layout of dwellings sold and/or resold to customers. Often architects find alternative ways to increase densities, squeeze in additional units and increase housebuilder’s profit. Ongoing project supervision and on-site visits are also an indivisible part of the development process. As a result, close working relationships emerge based on trust and regularity of contact. Not
surprisingly 70 percent of the builders interviewed tend to work with the same architect or design team for years.

The local authorities are responsible for co-ordinating building activities, planning major construction projects, and defining housing and construction policies. In addition they have the statutory responsibility to finance the expansion and improvement of technical infrastructure which in return is managed and maintained by state and/or municipal utility companies. Thus the provision of infrastructure services to developing areas is largely a responsibility of municipal and central governments, while the development and on-site servicing of new housing occurs principally in the private sector. Typically, cash-constrained municipalities will have no budget allocation for the capital intensive infrastructure work, and will try to shift these high costs onto developers and/or consumers.

The production of serviced residential land is also severely constrained by a cumbersome and lengthy approvals process for off-site provision of sewerage, electricity, water and roads. Reportedly municipalities refuse to upgrade existing systems, so housebuilders often face those costs as well. The standard practice is to build small power stations, to upgrade existing electrical networks and central heating distribution systems, to replace sewerage pipes and finally to ‘grant’ those facilities to the utility companies. Housebuilders interviewed referred to this phenomenon as ‘municipal racketeering’. Needless to say the cost premium is significant depending on the size of investment. Anecdotal evidence suggests that those expenses vary from 30 to 50 percent of the construction costs. In Bourgas housebuilders had more co-operation on behalf of
local authorities, but in Sofia the conflicts and tensions over the size of investments in technical infrastructure were considerable.

The privatisation of the construction industry in Bulgaria has been very slow, but is one of the priorities of the new government. State construction enterprises are in the process of restructuring: half of them will be retained with modified production, others closed down, and still more sold for conversion to other lines of business. Available data presented in Table 7.1. indicate that employment in the industry has been reduced by 47 percent compared to 1989 levels. Though the number of construction workers in the private sector has increased 20 times, those numbers are insufficient to offset the impact of the severe recession in the industry.

Table 7.1: Selected indicators for the construction industry, 1990-1995

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<td>Employees in the construction sector (thousands)</td>
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<td>Indices, 1989=100</td>
<td>361.0</td>
<td>337.0</td>
<td>253.0</td>
<td>204.0</td>
<td>209.0</td>
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<td>Share of employees in the construction sector (%)</td>
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<td>Share of employees in the private construction sector (%)</td>
<td>8.3</td>
<td>8.2</td>
<td>7.1</td>
<td>6.2</td>
<td>6.5</td>
<td>5.9</td>
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<td>Average annual wages in the construction sector (thousands lev)</td>
<td>3.67</td>
<td>4.75</td>
<td>13.43</td>
<td>30.08</td>
<td>42.05</td>
<td>58.32</td>
<td>95.62</td>
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Source: BNB 1996b, NSI 1994b, 1993

Wages in the construction sector in 1995 have increased 26 times compared to 1989, but real wages at constant 1989 prices are less than 40 percent. Unemployment and
labour turnover in the construction industry is among the highest in the economy. The economic reforms have led to deconcentration of the industry and a major shift from large- to medium-size companies (ECE 1996d). Only 12 out of the 30 kombinats — producers of 3,000 panel housing units per month in the early 1980s — have survived in the new economic environment. Reportedly less than half of their technological capacity is utilised, due to a lack of demand for the product.

Housebuilders often contract state construction firms for specialised tasks which require capital intensive technical equipment (e.g. ground works, roofing, thermal insulation, etc.), but employ direct labour for defined time periods and/or specific tasks like brick laying, roofing, finishing works and other labour intensive operations. Big firms, however, have their own staff and equipment for key construction activities and are able to close their production cycle.

The producers of building materials are mostly state-owned firms. The building materials industry in Bulgaria was developed to accommodate the needs of a growing construction industry. There were chronic shortages of basic building materials under state socialism. The liberalisation of prices in 1991, coupled with decreasing investment in new construction, have reduced demand considerably. At present, the production capacity of key producers of cement, ceramic tiles and window glass exceeds the requirements in the domestic market. The output in the building materials sector has decreased 2.5 times on average between 1990-1994 (ECE 1996d).

5 For example in 1980 there were only 47 construction companies, most of them with more than a thousand employees. Those companies declined to 14 in 1992. By contrast firms with fewer than 50 employees increased from 4 to over 2,000.
Delayed privatisation and monopolisation in the building industry creates serious problems for private housebuilders (Figure 7.3). Producers have the ability to control levels of output and to set up monopolistic prices. Materials used in traditionally built housing are mainly produced by local/regional suppliers (e.g. bricks, cement); steel and timber are imported, though some local producers also exist. Domestic producers apparently do not tailor their capacity to meet demand, or seasonal fluctuations, so delays occur. Builders, in response to inflationary pressures, tend to overstock building materials, thus contributing to supply inefficiencies. Monopolistic producers pass overheads and production inefficiencies on to the price, and maintain profits by raising prices of materials. As several housebuilders complained: prices at the end of 1996 were higher than prices determined by world commodity markets. Correspondingly, imports have grown significantly especially for finishes, window frames and hardware.
7.2. ECONOMIC EFFICIENCY OF THE SYSTEM

Profit-maximisation is the basic driving force in private housebuilding. It determines the sequence of events, the patterns of relationship between the different parties involved, and the activities carried out at different stages of the development process. An analysis of economic efficiency requires an assessment of key characteristics related to the economic performance of housebuilders such as: profit levels, production costs, labour productivity and input costs (land, labour, materials, finance). Certainly they need to be studied and assessed, particularly in reference to spatial and temporal variations. This section outlines briefly recent tendencies in costs, prices and profits.

7.2.1. Costs in New Housebuilding

Total development costs include the cost of raw land, on site infrastructure, construction costs, development fees and profits. Efficiency can be measured in terms of profits: the ratio between development costs and the sales price\textsuperscript{6}. Although those ratios are very difficult to capture empirically given the heterogeneity of supply and significant fluctuations in construction and land costs, the analysis identifies particular trends in the two local markets. The information is based on interview data and a crude averaging of prices for newly built housing available through local newspapers and real estate agencies.

*Land costs* vary widely according to location and tend to follow differences in house prices in different submarkets. Land costs, defined as a percentage of the total

\textsuperscript{6} For the purpose of this analysis it is assumed that the sales price cannot be increased as a result of exogenous factors not related to the efficiency of the provision system.
house price in a typical new housing development, are 17 percent on average in Bulgaria, but can be as high as 35 percent in Sofia and 45 percent in Bourgas. Serviced land is 4 times more expensive compared to undeveloped land with planning permission for residential construction (Dimitrov 1996). However, land costs have gradually declined in the mid 1990s which might be attributed to better functioning of land markets and lower demand. Generally, difficulties in converting agricultural land into residential uses create land shortages. In addition, jurisdictional and titling problems are driving land prices upwards. Land, therefore, is a serious constraint for new housing developments.

Construction costs\(^7\) have increased steadily in 1990-1996 and are 11 times higher compared to the controlled levels of 1989 (Figure 7.4.). Those changes no doubt reflect inflationary processes, increases in the prices of building materials, energy and transportation costs, but may, in part, be due to the use of outdated construction technology and the lack of economies of scale. Estimates of construction costs fluctuate wildly with inflation. The major factor behind that explosive growth is the general economic instability, but also the monopolistic strategies of state producers who charge world prices for their low quality building materials\(^8\). As a rule of thumb most of the firms have adopted a US$ pricing strategy since 1994, which introduces relative stability

\(^7\) Official statistics show that construction costs are very similar in Sofia and cities over 200,000 inhabitants (MTRS 1995). Although one might seriously question the validity of those statements, still there is no other information which can be used. Evidence from the interviews suggests that construction costs in Bourgas, for example, are 15-20 percent lower than those reported by housebuilders in Sofia. The labor component is part of the explanation, apparently Bourgas benefits from a large pool of construction workers in the region. Transportation costs are also much lower.

\(^8\) Prices of building materials are determined in US$ and calculated in lev according to the official exchange rate for the day. Reportedly prices in January-April 1997 have increased 4 times on average. Few builders are expected to survive the squeeze (Banker 1997).
in estimates of production costs. Though systematic information for 1996-97 is not available, experts indicate that construction costs are increasing much faster compared to the average consumer price index.

**Figure 7.4: Construction costs in tradition-built housing, 1992-1996**

![Graph showing construction costs from 1992 to 1996.]

Notes: Estimates of construction costs are based on the following assumptions: a. the costs of building materials are officially reported prices of state enterprises, b. additional expenses are up to 100 percent, c. transportation and storage expenditure - 12 percent and profits - 10 percent and d. the average hourly labour wage is calculated using data for 12 state and private firms. The estimates do not include value added tax and are not adjusted for inflation.


Construction costs are further broken down into the following components: construction of bearing structures and walls - 30 percent of the cost, finishing works - 35 percent, on site infrastructure and connections - 15 percent, transportation - 5 percent,
overhead - 15 percent (Imoti 1996). Those estimates are very general and certainly need to be interpreted with caution⁹.

7.2.2. The Chaotic Behaviour of Prices

The chaotic behaviour of prices makes research on ownership housing markets in Bulgaria extremely difficult. Under those circumstances it seems plausible to focus on emerging trends rather than attempt to provide a comprehensive assessment. What affects house prices and makes housing expensive compared to average incomes? No doubt the elimination of subsidies, the general inflation, escalating building materials and energy costs, high land costs, planning and legal delays push up the prices of newly built housing. In addition, state policies and regulation have been hostile to private housebuilding, imposing prohibitive infrastructure and development costs and repressive taxation. For example the 18 percent value added tax introduced in 1994 increased significantly the prices of new housing¹⁰. However, housebuilders need to balance between two unfavourable processes: falling demand and inflationary increases in construction costs within a framework of a highly unstable business environment. Inflationary processes and price instability made it particularly difficult for the surveys to get comparable information on sale prices from the housebuilders interviewed.

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⁹ Finishing works, for example, often take longer than the actual construction of the building and are more expensive due to poor distribution networks, high prices of imported materials, etc. On-site infrastructure, in the central areas in particular, tends to be more costly since it involves the provision of water, sewerage and energy networks which often expand beyond the scale of the site. State companies as a general rule do not reimburse housebuilders for those expenses.

¹⁰ Despite the lobbying efforts of the industry, the tax was further raised to 22 percent in June 1996. Those costs, however, could not be passed on automatically to the consumer. Specifically prices of finished dwellings, under old contracts, were constrained by what the market could bear. In most cases profits were eroded. A number of big developers went bankrupt.
Sometimes prices for similar projects will vary by 40-60 percent depending on the infrastructure premium (i.e. ‘municipal racketeering’), the land deal or the timing of the production cycle. While it is impossible to capture all the differences given the heterogeneity of supply and the diverse responses of the industry, it is considered important to control for factors which locally influence house prices significantly, such as location, density and quality of finishing materials in order to reduce differences as much as possible. Housebuilders often quoted their estimates in US$ per sq.m. since those prices are much more stable, but even in the ‘dollar zone’ of the Bulgarian economy profound changes have occurred at the end of 1996. The data are scanty and unreliable, but despite those constraints, it is argued that the surveys, supplemented with analysis of published data, yield strong messages about pricing strategies and highlight particular trends in the two housing markets.

Figure 7.5 shows the annual increase in sales prices, construction costs and land costs per sq.m. in Sofia during 1990-1997. A striking feature in house price dynamics is the up- and down-swings in 1991 and 1996, followed by the massive surge in early 1997. House price inflation matches the increase in construction costs between 1993-199611. The second half of 1996 and early 1997, however, saw house price inflation peaking much higher than the construction cost index. Thus construction costs increased by a factor of 3.3 while house prices shot ahead increasing by a factor of 5.2. Contrary to

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11 The explosive growth in construction costs in 1991 is not reflected in house prices due to the following reasons: the housing market was deregulated in 1989, while liberalization of prices in the industrial sector occurred at the end of 1991. The time lag was considerable, house prices in that period rose by a factor of 10 while construction costs caught up in 1991 but still rose by a factor of 6. Though there are significant fluctuations in house price inflation in 1992-1996, the average annual increase varies between 15.5 - 60.9 percent. Housebuilders interviewed had nostalgic memories about the good old days when the market was relatively stable and business confidence growing.
expectations the sustained house price inflation does not match trends in land costs. After 1992 land costs fell annually by 16 - 20 percent. This implies that land speculation in the early 1990s was fuelled by restrictions on the supply side and/or unrealistically high profit expectations of landlords.

**Figure 7.5. Annual changes in land and housing indicators in Sofia, 1990-1997**

![Graph showing annual changes in land cost, construction cost, and house price](image)

Note: The data relates to house prices for newly built apartments in the central areas - Ivan Vasov, Belkite Brezi and Geo Milev, with basic quality of finishing materials specified in the Bulgarian State Standard for Housing Construction. Prices refer to sales in projects where construction has been initiated and 20-25 percent of physical structure has been built. Land costs in those areas are expressed as a share of the built space in a typical project. Construction costs follow the officially published information in the Bulletin of MRDC.

Source: Survey data, Newspapers “Imoti” and “Sofiiski Imoti” for corresponding years.

House prices in the new owner-occupied market in Bourgas have been rising steadily from 1,500 lev per sq.m. in 1990 to 396,400 lev per sq.m. in 1997. Following the deregulation of building materials markets in 1991, house price inflation matches the increase in the official construction cost index for 1992-1996 (Figure 7.6). House prices of newly built housing in Bourgas for the same period have increased annually by 8.1 to 30.7 percent. The surge in 1996 registered an annual increase of 92 percent, followed by
the hyperinflationary boom of 403 percent in 1997, which is still lower than the one in Sofia.

**Figure 7.6. Annual changes in land and housing indicators in Bourgas, 1990-1997**

![Graph showing annual changes in land and housing indicators in Bourgas, 1990-1997.](image)

Note: The data relates to house prices for newly built apartments in the central area - Vazrazdane- where most of the newly built housing is located, with basic quality of finishing materials specified in the Bulgarian State Standard for Housing Construction. Prices refer to sales in projects where construction has been initiated and 20-25 percent of physical structure has been built. Land costs in those areas are expressed as a share of the built space in a typical project. Construction costs follow the officially published information in the Bulletin of MRDC.

Source: Survey data, Newspapers “Imoti” and “Tchernomorski Far” for corresponding years.

Obviously house price dynamics in Bourgas reflect the same macroeconomic processes, but growth is constrained by what the housing market can bear. Land costs, as in Sofia, decreased steadily through the 1990s, though only by 10 - 14.2 percent per year. Despite those trends, land in Bourgas continues to be the most expensive in the country.

**Profits** in new housebuilding in Bulgaria are increasingly variable. In general, profitability increasingly depends upon balancing construction and land deals against speculation with house prices (Barlow and Duncan 1994). The housebuilders interviewed were generally looking for a minimum gross return of 12-20 percent on capital used, although some of those profits were eroded by the inflation. Approximately 10 percent of
the builders, mostly in the upscale market, were seeking returns of up to 30-35 percent. Housebuilders are especially susceptible to the 'scissors crises' of increasing development costs coupled with decreasing demand.

In comparing house price and construction cost dynamics in the two local markets several important conclusions emerge. If estimates shown in Figures 7.5 and 7.6 are anywhere near the actual cost and price changes, the profit margins in Bourgas must be much lower. With higher land costs, lower sales prices and roughly the same construction costs per sq.m. housebuilders in Bourgas face tougher competition in the marketplace. However, in Sofia some of that additional estimated profit is eroded by ‘municipal racketeering’, which has not taken off in Bourgas; also planning delays appear to be much more significant due to the two tier approval system. Speculation with prices, much more pronounced in Sofia, shifts the efforts to short-term gains and risk management rather than production efficiency. Provided that land costs continue to decline, and competition drives profits further down, housebuilders in Bourgas have better chances to deliver affordable housing and to emerge from the current crisis in new housebuilding. In Sofia, on the other hand, housebuilders will have to accept much lower profit margins and reduce the sales prices correspondingly if they want to sustain and to increase their market share.

7.3. THE SOCIAL EFFICIENCY OF PRIVATE HOUSEBUILDING

The social efficiency of the housing system (Dickens et al. 1985) refers to its ability to achieve an appropriate supply of housing with respect to location, quality, size,
access costs with a minimum of public expenditure. In distribution terms it refers to the provision of good quality housing with a more favourable cost, high level of consumer choice and more equitable distribution between income groups and household types. A possible measure of social efficiency is the degree of product diversity – such as the physical form and size of dwellings and the choice available to the consumer – with respect to entry costs, property control and ownership (Duncan and Barlow 1991). Assessing the social efficiency of private housebuilding requires answers to the following questions: How does the supply of dwellings with respect to size, location, and type respond to consumer preferences? Who has access to housing provided by private housebuilders? How quickly can housebuilders respond to changes in the housing market? We respond to these questions using the information on size, type, price and quality of newly built housing.

7.3.1. Product Diversity and Marketing Strategies

Successful operation in the housing market implies correct anticipation of demand and consumer requirements and is based on attempts to forecast the future size of the local housing market. Though in reality housebuilders in the two cities are not involved in a comprehensive assessment of housing demand, firms do attempt to identify local housing market preferences for a particular type of housing, physical layout and design. Evidence from the author’s survey indicates that output mostly consists of medium density housing in 5-6 storey apartment buildings. In Sofia and Bourgas single family housing forms an insignificant share of the new market.
The precise composition of output is difficult to measure empirically without systematic data, however, observations suggest that despite the dominance of multi-family housing, there is a surprisingly large variety of sizes, layouts and quality of the units. Figure 7.7 presents a project in the inner city of Bourgas. The building incorporates several types of units, as well as retail on the ground floor. Typically floor areas of newly built units range between 70-130 sq.m. Following the downturn in the market in 1996 most of the housebuilders interviewed had to divide larger 4-5 room units and maisonettes into smaller ones in order to increase sales. Apparently 80 sq.m., 2 bedroom units, are most popular on the market. The physical change can be illustrated in the improved design characteristics of newly built housing compared to the mass produced dwellings in the housing estates (Figure 7.8.) *Housebuilding has made a remarkable progress towards better quality and diversity of the final product.* Rising prices do not affect all types of units uniformly, the process of increasing differentiation within the stock with respect to the three urban submarkets has been discussed in chapter 6. Not surprisingly new and better quality
housing tends to cluster in inner city neighbourhoods. There have been cases of private-led redevelopment of whole areas in Sofia and Bourgas\textsuperscript{12}.

Figure 7.8: Typical medium density housing development in Bourgas

Most housebuilders interviewed have made considerable efforts to identify particular gaps in the supply of new housing where expected prices could be higher and competition lower. A detailed knowledge of local housing markets, prices, and potential sites is obviously very important in this respect. A variety of marketing tactics have been

\textsuperscript{12} Spatial proximity does not necessarily create tensions among housebuilders. In Lozenetz, for example, 13 different firms were building high-end housing in one neighborhood. In Bourgas more than 40 firms operate in Vazrazdane, which is relatively close to the central business district and the pedestrian zone. Field visits and interviews with housebuilders in those areas indicated that different firms attempt to identify a particular market niche offering different styles, unit layout, finishes. In addition, some have managed to create a consortia for the development and financing of infrastructure which was economically feasible.
adapted to provide a more sensitive response to the housing market and to increase revenue from sites. First, a mix of apartment types is provided in the first phase to see which sells best and adjust the rest of the scheme on the basis of that experience (one example of multi-phase development is shown in Fig. 7.9). Second, housebuilders gear the rate of completion towards the rate of sales. Third, the uncertainty in the housing market influences the policy over sales prices\textsuperscript{13}. Generally firms will provide up to 5-10 percent discount to purchasers paying the total price in advance. The standard schemes include cash payment on an instalment basis (70-20-10 or 50-30-20).

\textsuperscript{13} Driven by the competition, housebuilders offer different incentive packages — discounts on finishing materials, custom made kitchens, changes in the layout of the unit, etc. Volume builders often negotiate contracts with fixed final prices, while most medium and small size firms adjust the sales prices with inflation and the construction cost index. A popular practice is to offer different quality of finishing materials (with a differentiated sales price) or even sell uncompleted units at a discount price, giving the customer the option to carry out finishing works through self-help.
The need for product differentiation adds a spatial dimension to land holdings. The number of sales depends on the marketability of the site, the overall state of the market and demand. Each site has a particular contribution to the positive cash flow generated for the firm. In the experience of several medium size builders interviewed, marketing faced new challenges in 1996 – monthly sales were less than one fifth of the sales in 1993-94. Given the prices of the dwellings, the social composition is skewed towards higher income groups – notably professional and managerial categories. These educated consumers are more demanding, so the industry encourages quality design, improvements in layout, emphasises flexibility.

In addition to the four Ps of a marketing strategy – product, price, place, and promotion – housebuilders add two more – power and public relations. The firm must often win the support of government bureaucrats, influential construction industry officials, and state producers of building materials to enter and operate in a target market. Those institutions often create visible and invisible barriers. Sophisticated lobbying and negotiating skills are required to achieve the desired response. Volume housebuilders, in particular, are cultivating public opinion, tapping into popular images of harmony and comfort, but essentially emphasising the idea that ‘the home is value for money’.

7.3.2. Affordability and the Myth of Consumer Choice

Theoretically, a market-oriented system for new housing supply should provide a greater variety of housing for owner-occupation. However, consumer sovereignty in a demand-driven housing provision system is in accordance with the ability to pay
Given the fact that wages have failed to keep up with inflation, unemployment has increased and living standards have dropped by 40 percent, the scope for consumer sovereignty is marginal for most Bulgarian households. It has become clear that housing markets are not a universal solution to existing housing problems and will not automatically lead to a better housing situation, particularly for households excluded from access to home ownership. Though in the case of Bulgaria ‘the losers’ happen to be a minority compared to ‘the winners’ who already own their housing, still the Bulgarian dream of home ownership is now seriously challenged by the growing affordability gap. The low purchasing power of consumers, uncertain income prospects and the lack of mortgage instruments suitable for an inflationary environment reduce the pull of potential buyers. Currently, sources of funding for new housing construction are obscure at best. Needless to say housing absorbs a great deal of profits from the shadow economy and hard currency earnings.

It is important to mention that there are big regional differences in the housing markets of large urban centres and apparent regional variations in housing prices and affordability. Exploration of those issues is beyond the scope of this work, but for example house prices in Sofia might be 3-10 times higher compared to house prices in smaller towns or rural areas. A study of access and affordability for different types of households in Bulgaria carried out by Ravitz presents a snapshot of the situation in 1992. Examining data on household income, house prices in the new and existing market, and current mortgage arrangements, the author concluded that only families in the highest income quintile could afford to buy less than 54 sq.m. in the existing housing market at
the lowest possible price – e.g. one bedroom unit in the peripheral housing estates (Ravitz 1992). Four years later the situation has not improved. Access to home ownership is a considerable problem for Bulgarian households. The tenure structure also limits the range of housing opportunities and fuels demand for new owner-occupied housing. Informal discussions with homebuyers indicate that most end up 'trapped in home ownership' paying unbearable costs.

7.4. DYNAMIC EFFICIENCY AND THE ORGANISATION OF HOUSING PRODUCTION

Dynamic efficiency is the ability to improve production efficiency over the long term, to innovate, to introduce new products, technologies, forms of management and control over the development process (Barlow and Duncan 1994). Success or failure can be assessed in terms of competitiveness, ability to adopt risk reducing strategies and efficient management of the production process (Barlow and King 1991). It is hard to operationalise those criteria empirically. The following section examines competitive strategies of housebuilders in the market place with respect to land acquisition, organisation of the production process and financing. Those strategies are analysed with particular emphasis on risk management and production efficiency.

7.4.1. Land Strategies

The way in which firms structure their development activities primarily depends on the nature of the two markets they have to operate in: the owner-occupier housing
market and the land market (Ball 1983). These markets impose a certain degree of discipline on producers, encouraging them to compete through technical innovations, lower prices, better quality, and improvement in labour productivity. Land is a major resource and one of the biggest problems in private housebuilding. Land strategies are therefore crucial for the success of the development. The literature highlights the advantages of land banking to maximise development gains in housebuilding (Ball 1983, Barlow and King 1991, Bramley et al. 1995). In transition economies in general, and in Bulgaria more specifically, land banking is virtually non-existent. Landowners rarely sell land even to big institutional investors. Reportedly housebuilders hardly ever own the land. Land acquisition strategies include a joint ownership with the landlord and/or purchase of the building rights for a period up to 5 years. Within that arrangement developer’s profit from land is not as significant, though windfall gains exist, rather profits could be achieved through margins between production costs and the sale price of the dwellings. Although housebuilders emphasise the importance of land dealings, they are much more attracted to areas with high demand and prestigious sites where marketability of units is higher and sales prices are correspondingly higher. The planning status of the land is a factor in the decision-making process. Of those interviewed, 82

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14 Of those interviewed only 3 firms owned land outright. Those were greenfield sites, with unclear planning status, bought on a speculative basis. Firms were prepared to develop large scale housing schemes to utilize the land. At the time of purchase obviously the risk was considered to be low. However there was no intention under the current conditions to proceed with the development.

15 This is the most convenient and popular form of land acquisition against a commitment to provide a share of the built space for the landowner. After the completion home owners legally acquire a title to the property with a corresponding share of the land. The deed can be registered at the Notary Public. However, units are sold in advance to prospective homebuyers with a contract between the housebuilder and the client correspondingly. These arrangements are questionable in legal terms; contracts have been declared invalid in court in the case of several bankruptcies in 1995.
percent claimed to build on land with planning permission already zoned for residential and/or mixed use development. Close to 12 percent claimed to have initiated construction during the negotiation with the local planning authorities. However, most housebuilders had to go through the process of planning revisions to maximise development opportunities and to increase densities.

![Figure 7.10: Private redevelopment of a whole neighbourhood in the inner city of Sofia](image)

*The selection and identification of the site* is the first step in reducing the development risk. Different sizes of housebuilding firms have different strategies with respect to site selection. Larger developers prefer a wider selection of sites in their land portfolio to minimise the risks, however smaller firms tend to be specialised in niche markets.
Though housebuilders express a preference to build on greenfield sites - 'the easy option' - in reality most of their operations are clustered on infill sites in the central areas; one example is illustrated in Figure 7.10\(^\text{16}\). Greenfield development is practically possible for the very few volume housebuilders who can justify the expenditure for off-site infrastructure with the size of the development and also compensate these costs through economies of scale.

7.4.2. Production Cycle and Efficiency

The organisation of housing production involves the purchase and assembly of non-land inputs, the management of labour and control over the building process at the different stages of the production cycle. As Ball argues "there is a clear divide between development and production" (Ball 1983:156). Housebuilding in Bulgaria is essentially an on-site labour intensive process which takes 18-24 months to complete. It is notorious for its fragmented production system, where long sub-contracting chains reduce the capacity of firms to operate efficiently and achieve economies of scale. In addition, the unstable business climate, fluctuating sales and house prices, escalating building costs and the crisis of profitability in private housebuilding impact on the production process. Efficiency and higher profits can be achieved through greater flexibility in the organisation of the production process, and in the management of the labour component.

\(^{16}\) Substantial risk and effort is saved by developing land with existing infrastructure. Though central areas due to complicated legal arrangements, multiplicity of landowners, and changes in the master plan are much more difficult to tackle, demand in those submarkets is higher. Housebuilders are much more confident when the site is nearer to a generally improved area or when the scheme is large enough to create a favorable environment in itself. Thus land in particularly attractive locations reaches greater value and housebuilders maximize densities or are tempted to compensate high land prices by reducing landscaping, environmental improvement, the quality and diversity of units, etc.
and the technological capacity of the firm. Evidence from the survey highlights specific strategies developed by housebuilders in that respect.

In general, firms attempt to maintain a steady and diverse flow of units in order to utilise their existing technological and labour capacity. Having a set of projects at different stages of the construction process enables them to streamline the supply of materials and increase production efficiency. Multifamily housing is built in phases: site clearance, ground work, site servicing, construction of slab and bearing walls, finishing works (Figure 7.11). The time lapse between each stage can be considerable, depending on the rate of sales, thus leaving the construction of least marketable projects substantially behind schedule.

Figure 7.11: Typical tradition-built housing under construction

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17 Some of the housebuilders indicated that work in progress on at least six projects at different stages of the production cycle was the optimal capacity of the firm, others were more ambitious with 15-23 sites. There is a great deal of uncertainty about those estimates and insufficient information about the firms in the sample to use those indicators in a more systematic manner.
The fluctuations of the production process over seasonal and long-term cycles encourages housebuilders to shed directly employed site labour. The trend away from direct employment has become more pronounced during the current recession\textsuperscript{18}. Traditional methods of housing construction require semi-skilled labour, so most of the small and medium size firms contract brigadi for bricklaying and slab erection. Specialised, skilled labour, is needed mostly for the finishing works. The interviews indicated that private housebuilding firms have a remarkably small administration and management staff (2-5 percent). Few firms had in-house architects or engineers. Small companies are run by individual entrepreneurs and typically employ less than ten employees.

Most housebuilders, regardless of their size, contract out specific tasks — groundwork and insulation are a good example — to private or public construction firms. Those tasks apparently require heavy technological equipment which is in most cases state owned. Though it is common with firms to purchase lifts, operational mechanisation, fork lift trucks to transport palletised bricks around the site, etc., only the volume housebuilders and several of the medium size firms indicated a serious commitment to developing a technical capacity sufficient to meet their needs. Such a business strategy effectively relieves housebuilders from many responsibilities and long-term financial liabilities. It also holds back technical development, since firms are

\textsuperscript{18} However, firms still reported a relatively high share of direct employees compared to their output levels. The volume housebuilders had building rates which still could sustain a workforce of 400-500 employees. But even there concerns about the cost have led to contracting part of the specialized construction works. In addition, employers pay high social contributions of 36 percent and a retraining allowance of 7 percent which are a significant drain on profits.
reluctant to innovate and find technological improvement too expensive. In the recession most housebuilders adopt survival strategies which was expressed best by one of the presidents interviewed:

"It is becoming difficult to maintain a steady cash flow in larger projects. Firms need to restructure and be extremely flexible every year in line with market demand. Machines and equipment need to be purchased very carefully since there is no guarantee on the long-term use of the technologies with full capacity. No tax preferences or incentives support investment in technical equipment."

Given the explosive increases in the prices of building materials and inflationary pressures, not surprisingly housebuilders have a strong incentive to reduce construction costs by rationalising the supply of materials. Virtually all firms interviewed stated that they purchase in advance most of the materials needed for a particular project, thus sheltering costs from inflation and uncertainties. Stockpiling of materials plus labour strategies still provide an opportunity to reduce risk and maximise profit and act as disincentives to increase production efficiency.

7.4.3. Strategies for Financing and Risks

Success and efficiency are closely related to the mobilisation of funds. Housebuilders try to be independent from borrowing\(^\text{19}\). In the total sample only one firm claimed to have used short-term loans in 1991. Most firms provide up to 30-40 percent internal financing. Through land barter (building rights in exchange for a share of the newly built housing) payment for the land is deferred, but builders need to cover the costs

\(^{19}\) One of the housebuilders interviewed stated: "If construction credits are used the price per sq.m. would be US$ 1,250 (07.1996), while we consider that under the equity financing conditions housing costs cannot be lower than US$ 270."
of project development, legal fees and marketing upfront. The bulk of the capital is provided by prospective home buyers. Ultimately under such conditions investment is considered risky. The implications for the organisation of the production process are several: a) a shift towards small-scale, tradition-built housing, b) low tech solutions (cheaper labour and local materials), and c) a longer construction period so that buyers can mobilise funds. Under the unstable macroeconomic conditions longer construction periods paradoxically shelter the housebuilders from higher risk, since both sales and prices can be adjusted to surges in costs and exchange rates.

It should be noted that the interviews with private housebuilders were undertaken in a period of deep recession, high interest rates, declining output and very slow sales. These conditions elicited novel responses. Builders indicated that it was impossible to sell units without a considerable investment in the ground works and in 25-30 percent of the physical structure of the building. Ongoing sales, the constant adjustment of prices, and the mobilisation of funds on a weekly-monthly basis were part of the new financing strategies. Buyers have lost confidence in private housebuilders due to higher bankruptcy rates and the changing images of the industry. There was, and still is, a paranoid fear of getting trapped in the so called ‘construction pyramids’, which after the bankruptcy of several large builders have swept away the savings of hundreds of middle class households in 1996. As one of the interviewed housebuilders stated:

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20 Equity financing has given a lot more power to consumers in terms of influence over the design, size and quality of dwellings, but has also created a number of problems. If investors pay 90-100 percent of the price in advance, there is little to no guarantee for the developer against inflation. More importantly prior to the official inspection of the project by a state commission a title of the property cannot be registered and legally validated. Also larger projects are much more difficult to coordinate, often shares of buyers unable to keep up with the payments need to be resold.
“Every failure to keep deadlines and to manage supplies within a tight financial framework leads to losses covered with money from the next project. Often pressure from landowners to receive higher compensation contributes to unrealistic price estimates. Failure to mobilise sufficient funds, to sell at prices which guarantee profits, means that units are sold cheaper. After 5 projects losses are unrecoverable.”

The realities of 1996-1997 were utterly different from the practice in the early 1990s, when sales were brisk, and clients were paying in advance for developments on ‘green sites’.

The chapter has examined economic, dynamic and social efficiency of Bulgarian private housebuilding. In terms of economic efficiency – it was argued that the system can deliver adequate financial return and profits. During house price inflation short-term profits can be extremely high, but also unstable, making housebuilders extremely vulnerable during recession. Success in housebuilding depends on land deals and the selection of sites, but mostly on speculation with the sale prices of the dwellings. The provision system is characterised by a high level of risk and uncertainty which in return explains the emphasis on more conservative strategies with respect to the organisation of production. In the unstable economic environment firms are faced with a chaotic behaviour of prices, making it impossible to develop long-term business strategies. Reducing the level of risk becomes a key for economic survival rather than production and dynamic efficiency. It was argued that market-led housing development has a potential for greater social efficiency with respect to consumer choices, quality and product diversity. However, the housebuilders are servicing mainly the upper end of the housing market and little capability is being developed to deliver affordable housing, which seriously questions the social efficiency of the housing system.
In this chapter an attempt is made to synthesise the findings of the preceding analysis. These insights are then used to evaluate the impact of housing reforms on structures of owner-occupied housing provision, and also to identify the key barriers which affect the efficiency of private housebuilding in the new economic realities. The chapter concludes with an assessment of the conceptual framework used in this thesis and suggestions for further housing research in the context of transition from planning to markets.

It is necessary to recognise that though the extent and the intensity of housing reforms have been different across the countries of CEE, the transformation of the housing sector according to market principles has been significant and rapid. The systems of housing provision in those countries, however, are still in a state of flux. The traditional mechanisms of central planning have broken down much faster than the appropriate market mechanisms and regulatory instruments have emerged. Moreover, the transition from planning to markets has taken place under extremely unfavourable economic conditions and with severe dislocations in the housing sector marked by high inflation, rapidly escalating prices and collapsing output.

8.1. HOUSING REFORMS AND THE TRANSFORMATION OF HOME OWNERSHIP

Housing reforms have involved, more generally, policies aimed at reasserting market forces and reducing state intervention. With respect to housing provision they have promoted
deregulation, increased the role of private sector institutions and reduced and/or eliminated housing subsidies. In addition, an extensive privatisation of public assets (including public rented stock and state construction enterprises) has taken place. The objectives of those reforms have been to improve the economic and social efficiency of the housing provision systems, and to abolish long-standing imbalances in the production, distribution and consumption of housing. The restructuring of the housing sectors in accordance with market principles has also been necessary for sustaining their national economic vitality and for their integration into the new market-oriented economies of CEE.

Home ownership in most post-socialist countries had already become a mass tenure in the 1980s largely due to government policies, considerable subsidies and high levels of investment in housing. This growth occurred under state socialism in an environment of full employment, generally equal incomes, negligible housing costs, stable family arrangements, little mobility and comprehensive welfare provisions. The privatisation of public housing at 'give-away' prices has also fuelled the expansion of home ownership. Housing reforms and emerging housing markets have had a profound impact on home ownership. It has been argued in Chapter 4 that deregulation and the operation of housing markets have transformed home ownership from a relatively homogeneous and uniform type of tenure into a more diverse and polarised one. Previous 'housing equality', in

\[1\] It has been argued in Chapter 4 that a fundamental distinguishing feature of housing markets in most post-socialist countries is the high percent home ownership. Albania, Bulgaria, Hungary, Romania, Slovenia, and Croatia, where the share of the owner-occupied sector is over 80 percent, can validly be regarded as nations of home owners.

\[2\] Between 1991-1994 more than 3 million flats were sold to sitting tenants in CEE and approximately 300,000 flats have been restituted to former owners (Hegedus et al. 1996). In Russia alone 11 million dwellings have been transferred to public sector tenants which represents only 35 percent of state owned housing (Struyk 1996).
relative terms, has given way to inequality which has become visible in the new market-based system. The growing differentiation reflects the legacy of socialist distribution policies, differences in the quality and quantity of housing consumed, and last but not least, the growing differences in house prices. Parts of the current home ownership market include inadequate or substandard housing, apartments in peripheral housing estates with substantial need for repair and improvement, as well as luxury apartments (single-family housing) in high quality neighbourhoods. From being a relatively uniform tenure pattern as it was under state socialism, home ownership has become increasingly differentiated with a privileged high status fraction in gentrified neighbourhoods and a low status sector of socially segregated home owners in problematic housing estates.

Another related outcome of this tenure transformation is associated with the changing profile of homeowners. A growing income differentiation, coupled with an inability to cope with the rising costs of utilities and maintenance in the owner-occupied sector, no doubt has led to further segmentation of the market. Home ownership, therefore, conveys mixed images: of affluence and deprivation. It incorporates the unemployed, the asset rich, but cash poor retirees, and the business elite. In the new market reality, home ownership has acquired a different meaning – one well-known in western economies – it has become a source of personal wealth and power. This in turn will further influence the economic position of households, as well as their behaviour and choices in the housing market.
8.2. CHANGING STRUCTURES OF HOUSING PROVISION

Competition and penetration of the market in the housing provision system have become the most significant factors affecting the supply of new owner-occupied housing. This process, often called 'commodification', has transformed home ownership from a supply-driven into a demand-driven tenure. In a demand-driven housing system consumer preferences and choices are the most powerful influence over the quality, type and the price level of newly built housing, which certainly reshapes the provision of new housing in the owner-occupied market. Changes in demand, together with the privatisation and deregulation of supply, have become the driving forces behind the adjustment of housing suppliers – builders, financial institutions, land owners, to name a few. New actors and structures have emerged and existing institutions with long-term interests in housing have acquired new roles and responsibilities in the market environment or ceased to exist.

It has also been argued that reforms have facilitated a more diversified structure of housing provision. Self-promoted, speculative-built and self help housing have become the most significant forms of housing provision as opposed to state-promoted and state-built housing. The importance of speculative housebuilding, non-existent under state socialism, is constantly growing. Privatisation measures have not only shifted the balance in new housing production to the private sector, but also to small firms and individual households who now account for a larger share of the total output. Those rapid shifts on the supply side have resulted in better quality and more diversity in the final product. Certainly the collapse of the centralised production system, combined with the inefficiency and low productivity of the state construction enterprises, have made it much easier to introduce
radical changes in the provision of new housing. Demand for apartments in mass produced high-rise panel buildings, for example, has plummeted, as consumers expressed their preference for medium density, tradition-built housing. State producers of industrialised housing, the kombinats, had to be closed down and/or restructured.

In response to demand, but also driven by industrial privatisation and deregulation, a relatively robust private housing industry has emerged in several CEE countries, most notably in Poland, the Czech Republic, Hungary and Slovenia. The previous monopoly of state enterprises over housing production, and the distribution of building materials has also been eliminated in most CEE countries. However, private developers and builders have faced increasing financial difficulties, high inflation and an inadequate supply of credit. Housing finance institutions, with a few exceptions, have been reluctant to introduce alternative mortgage instruments more suitable to inflationary environments. High interest rates have paralysed formal housing finance. In general, inflation and macroeconomic instability have had an unfavourable impact on the behaviour of housing suppliers and institutions, and also have contributed to the rising costs of housing inputs. In addition, the restructuring of subsidies paralleled with liberalisation of prices have been significant steps towards the establishment of market-oriented housing sectors, but have pushed up the costs of building materials. Marketisation in the supply of land, but also the unrealistic profit expectations of landowners, have also contributed to the high costs of new housing.

The transition from predominantly state financed and heavily subsidised housing system to housing markets where households pay the full price for housing services, has been extremely difficult due to the low purchasing power of consumers. At the start of the reform
extensive consumer subsidies for owner-occupation through low interest mortgages, have been eliminated. Effective demand for home ownership, in turn, is severely constrained by pending wage reforms and the slow economic recovery in most CEE countries. The gap between house prices and income has increased, reaching a ratio of 7:1 to over 18:1 in some markets. Studies have indicated that current mortgage arrangements, income levels and house prices make housing unaffordable to a large number of households. The previous shortage of housing has been replaced by a shortage of affordable housing. On the demand side, the growing level of social polarisation and income differentiation in post-socialist societies have become the key driving forces affecting consumer behaviour, preferences and choices in the new owner-occupied housing market.

8.3. IS MARKET-BASED HOUSING PROVISION MORE EFFICIENT IN ECONOMIC AND SOCIAL TERMS?

It has been argued above that the process of housing transformation, particularly in the home ownership sector of the post-socialist cities, has been very dynamic. Within a very short time frame a market-based housing system has replaced the former centrally-planned housing system. Different countries have chosen a number of different strategies in the reform process, and progress with respect to supply- and demand-side reforms has been highly variable. Diverging experiences and differences at the start of the reform have also

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3 Income differentiation has profoundly changed the social landscape of post-socialist cities in the last six years. Increasing income disparities, as expected, have lead to a more diverse pattern of life styles and preferences affecting housing choices. At the top of the income scale households seek to achieve better living standards and to settle in a more attractive environment. This has become a significant factor driving effective demand in the market for new housing. At the bottom of the scale poverty manifests itself through the growing number of people on social assistance, rising homelessness, and in general, the degradation in living standards.
considerably affected the range of implementation strategies. This makes conceptualisation and evaluation of the process in CEE very difficult.

Examining the *economic efficiency* of the housing provision system leads to the conclusion that the success of housing reforms – at least measured in terms of public expenditure cuts – has been a major achievement. Eliminating housing subsidies, or designing them better, has resulted in lower budget deficits, and in general terms in an improvement in the economic efficiency of the post-socialist housing systems. Led by public expenditure considerations, housing policy makers have discarded the traditional concern about rising housing shortages, replacing it by considerations of what the transition economies could afford.

The actual operation of housing provision systems is largely left to the market. Resources are expected to be allocated on the basis of competition among producers in a more efficient and rational way. Socialist state construction enterprises were notoriously inefficient, and a huge share of housing subsidies covered the cost premium resulting from poor management, construction delays and production inefficiencies. The fact that market institutions now are playing a dominant role in the supply of owner-occupied housing is certainly favourable in fiscal and organisational terms. It allows greater control and participation of home owners in the provision of housing, and broadens their choices. As might be expected, market agents, largely profit motivated, have responded to effective demand rather than need. As a result socially marginalised households face increasing housing problems manifested in their inability to afford adequate shelter. Those realities, though not very different from the Western experience, have become a
real challenge for transition economies. The dual nature of these housing systems with a privileged owner-occupied sector and a small residual public sector is certainly an undesirable outcome of the transformation process.

Levels of output and production costs are critical indicators of economic efficiency. It has been argued above that housing costs have escalated, while output levels have collapsed in the new market-driven provision system. However, those outcomes cannot be attributed exclusively to the inefficient operation of markets. Production costs were rising steadily under state socialism and a growing amount of subsidy was necessary to sustain the affordability of housing. Less state funding was allocated in the 1980s, which was evident in the declining rates of new housebuilding. The withdrawal of the state from provision and investment in social housing and the elimination of production subsidies, not surprisingly, has resulted in lower levels of output and higher costs. The long overdue cost adjustment, however, has been caught up in the inflationary spiral which certainly has aggravated the problems with rising land and production costs.

Market-led housing provision, despite these problems, has a potential for greater social efficiency with respect to consumer preferences, quality and product diversity. Previous state allocation and production systems did not take into account consumer choices. In the socialist housing economy of shortages the housing product was standardised, quality was often substandard, and services in the peripheral housing estates were poor at best. In a demand-driven housing provision system consumers exercise their choices in the market which alternatively leads to a different organisation
of the development process and greater diversity of privately produced housing. This change has been manifested in the increasing range of housing types, and sizes, an improvement in quality, and the growing preference towards traditional materials and construction methods.

However, while housing costs have been increasing, less new housing is being built. Output has reached its lowest levels in the last 45 years. The linkage between rising house prices, escalating building costs and declining level of housebuilding, together with a growing affordability problem, are indicators of *the growing crisis in the home ownership market*. Housebuilders are especially susceptible to the “scissors effect” of increasing production costs coupled with decreasing demand. Currently the housing industry is servicing mainly the upper end of the housing market, while little capability is being developed to deliver affordable housing. This seriously questions the social efficiency of the market-based provision system in the home ownership sector.

A number of external factors affect unfavourably the performance of the housing provision system. Empirical research in Bulgaria indicates that housebuilders are especially vulnerable during economic recession. The increased competition among a large number of housebuilding firms, has improved the quality and diversity of housing, but has also created considerable pressure to control costs through subcontracting, stockpiling of materials and disinvestment in technological improvement. Overall these short-term survival strategies do not create prerequisites for the development of an efficient housing industry in the long-term. Housing production capacity has remained limited due to the fragmented nature of urban land supply coupled with the prohibitive
costs for infrastructure development that has been shifted onto the private sector. The limited amount of financing (both financial intermediaries and mortgage markets) has led to unusual strategies for the mobilisation of funds for housing construction. The fact that new housebuilding in CEE is mostly financed through private capital from prospective home owners on an instalment basis affects the production process and the alternative business strategies in the market place. Completion rates, not surprisingly, are closely related to sales rates. Empirical research in Bulgarian housing markets has indicated that marketing strategies and risk management rather than production efficiency have become the dominant concerns of housebuilders. The high level of risk and uncertainty, for example, explain the emphasis on land and house price speculation and the prevalence of more conservative strategies in the production process.

The behaviour of market institutions and actors within the housing market also depends on the regulatory framework. There is a clear relationship between the various methods of state regulation and intervention and the competitive strategies for land acquisition, production, financing and marketing adopted by the different housebuilders. The housing market itself imposes a certain degree of discipline on suppliers, encouraging producers to compete through technical innovations, improvement in quality and consumer choices, raising labour productivity. In the absence of monopoly in the market being competitive and producing better quality products is of crucial importance for economic survival. However, post-socialist housing markets are characterised by rigidities and monopolistic elements in the case of suppliers of housing finance and building materials in particular. The housing market is actually distorted by land-use
constraints, lengthy planning approvals, prohibitive development charges and unfavourable tax policies. This environment does not facilitate the efficient operation of the private housebuilding industry. In the context of economic uncertainty and chaotic behaviour of prices reducing the level of risk becomes a key for the economic survival rather than production and economic efficiency.

Therefore it is not possible to improve the economic, social and dynamic efficiency of the system itself without corresponding changes in the framework affecting its structure and operation. Comprehensive reforms, including more efficient forms of state regulation - legal, tax and financial incentives in particular - are required to balance existing market imperfections and to enable competition in the market place. State intervention is also necessary to ensure the long-term supply of urban land and capital for housebuilding. The present shortage of urban land, often withheld from the market by municipalities and state enterprises, has been a significant barrier for new housing development and contributes to escalating land costs. It has also become clear that during the transition process without state intervention, the capital market is unable to allocate sufficient funding to allow balanced housing production. Paradoxically, at this stage housing policy needs to introduce a new form of land and capital market regulation to enable the more efficient operation of the market institutions in the provision system. In addition, regulations need to encourage production and economic efficiency, while creating the conditions for technological improvement and innovation in new housing provision.
One of the fundamental questions addressed in this research relates to the importance of institutions and actors in the housing market which account for the critical differences in the nature and operation of different housing systems. In particular, the analysis evaluates the extent to which economic and social efficiency depends on the intended or unintended actions and behaviour of these agents in the housing market. Given the significance of institutional change in reshaping centrally-planned into market-based housing systems, this dissertation explored the changes in the relationships of institutions and actors in post-socialist housing markets. Using the concept of structures of housing provision, it identified the major differences between socialist and transitional systems focusing on key actors and institutions involved in the production, allocation and consumption of owner-occupied housing and evaluated their performance. Such an approach provides a new perspective on housing reforms, assists in the conceptualisation of the transition process, but also contributes to the understanding of the relationships between institutional structures and market outcomes in different national and local contexts.

It has been argued that housing reforms have modified the socialist forms of owner-occupied housing provision and have set a new framework for the operation of key actors and institutions. A multiplicity of new private sector actors replacing the former socialist, state owned institutions has emerged. State bureaucracies, privatised construction enterprises, market-based suppliers, builders, consumers, and landowners have to operate under a new set of rules and regulations. However, in the context of a market-driven provision system those new agents are building upon the legacy and the
outcomes of earlier cohorts of actors and institutions. This *socialist legacy will distinguish housing systems in transition from mature, market-based delivery systems for a long time*. The transformation of institutional structures in the housing sector has proceeded very fast in some countries and has been relatively slow in others.

In general, housing reforms in the early 1990s have taken place in an institutional and regulatory ‘vacuum’. More specifically, efficient mortgage institutions to mobilize savings and to ensure a steady flow of capital in the housing market have not been established. The uncertainties imposed by the lack of an adequate land and property registration system have had negative implications for the efficient operation of the housing markets (ECE 1996b, Jaffe et al 1995). Despite the efforts of CEE governments to create new legislation and/or to amend the existing one, the legal framework has failed to keep up with the market. The lack of efficient housing market institutions and less transparency in the legal framework are critical differences between housing systems in transition and mature, market-based ones.

In addition, most of the supply-side actors are former state enterprises recast as private entities. The top-down approach to privatisation has transformed enterprise managers and employees in controlling owners in the new environment. Converting a state monopoly into a share holding company, or a private enterprise, does not make the construction industry more competitive. Not surprisingly, some of these entities do not operate as market-based actors, continue to rely on state subsidies, and remain inefficient. An effective housing market requires competition, as well as a well developed legal and institutional framework. *The institutional ‘vacuum’ has aggravated*
the difficulties in the transition and has multiplied the uncertainty about market outcomes and the relationships between actors in the housing markets. The argument raised here has direct implications for the economic and social efficiency of the new housing provision systems. There is clearly a need for further research and more comprehensive nation-by-nation evaluations which will assess these issues in more detail.

Despite the short time frame, housing reforms in CEE have marked a radical departure from the old socialist housing systems. Though it is too early to predict what systems will evolve in the future, one might expect that three principle alternatives will emerge. At one end of the spectrum are the ‘nations of home owners’ with marginalised public sector housing for low income, welfare dependent households (e.g. Albania, Bulgaria, Hungary, Slovenia). Russia, Estonia and Latvia occupy the middle ground with close to 55 percent of their stock being public rental housing, which obviously will accommodate the needs of a socially mixed population in the future. At the other end of the spectrum are Poland and the Czech Republic with less that 42 percent owner-occupied housing and a sizeable share of co-operative housing. Certainly the latter two systems provide a greater choice to consumers with respect to tenure and entry costs. Regardless of the differences in the tenure structure, CEE countries have developed market-based housing systems, in which market mechanisms dominate the promotion, allocation and delivery of housing services.

In thinking about the future, one might expect that different structures of housing provision which have evolved will lead to diverging housing experiences among post-
socialist countries. Given the present trends in housing investment and the fiscal constraints, future expansion of the stock will occur mostly in the home ownership market. However, growth is likely to be modest even in CEE countries emerging faster from the continuing economic recession. Home ownership will become more polarised, overcrowding and shortages in the sector will increase. One might expect that private investment in new housing will become the norm with speculative housebuilding competing with self-promoted housing in the market place. The housing industry will become less fragmented and probably more efficient, but housebuilders will continue to serve mostly the upper end of the market. The assertion here is that these forms of further adjustment in the structures of housing provision will be similar in some ways to those in mature market economies, and in other ways will differ substantially. An additional objective for further research is to identify what are those differences.

8.4. FURTHER RESEARCH NEEDS

Housing research in transition economies plays a critical role in the assessment of market processes and in designing adequate policies to address the ‘new housing shortage’. In thinking about the way research might facilitate the reform process in the future, it is important to explore supply and demand of housing in local markets, to develop new systems for the monitoring and evaluation of market performance. Housing market efficiency is directly related to competition in mortgage markets. Lower interest rates, a more stable exchange rate regime, and lower inflation, should in principle contribute toward a lower cost of finance for home owners and private investors. An
important research task is to investigate if deregulated and liberalised mortgage markets should be promoted, or a more regulated financial framework established. Furthermore, the reduction in subsidies requires research on the distributive impact of these policy measures; determining the effect on public spending, housing output, and economically vulnerable households. The relationship between the level of housing subsidies and housing affordability problems is crucial for housing market efficiency. Since the growth of owner-occupation has been one of the hallmarks of the transition period, further research needs to identify the impact of that process at the macro level (costs, investment, housing debt), but also to assess the investment needed for the renewal and maintenance of the owner-occupied housing stock.

On a theoretical level, the debate regarding the role of the state will intensify. What type and level of state intervention is needed? What type of market-state mix is the most appropriate to facilitate efficiency? Given the climate of fiscal restraint and concerns about the budget deficit, there is a growing preference to rely on market solutions. Housing, as an essential part of the productive sector of the economy, should be seen as a tool to drive economic growth in transition economies. The justification for further government involvement is the development of a strategy which encourages investment in the sector, enables markets to work more efficiently and assists marginalised groups in society in access to affordable housing. With respect to those objectives even a narrow approach includes estimates of housing demand and need together with expected future supply in local markets utilising economic and demographic information. This is necessary for several reasons. First, the level of
housing demand determines the activity of the housing industry and mortgage institutions. Second, the imbalance between supply and demand is an indicator of housing problems such as deficits, homelessness, etc. Thirdly, housing need is important with respect to future local housing policies. Within that framework local housing programs need to be developed to address local priorities, to mobilise resources, and to assign responsibilities to various parties in the provision process.

A significant part of the research agenda in the countries of CEE is to develop adequate conceptual frameworks and/or to refine existing conceptual frameworks and strategies for comparative research, in order to evaluate housing reforms in a consistent manner. This study has made a modest attempt in both of those respects. The concept of structures of housing provision has been applied to the analysis of owner-occupied housing markets in CEE. It has facilitated the evaluation of dynamic processes of change in different housing provision systems and has identified new sets of relations of economic power between the different social agents. The conceptual framework of this study has refined and expanded the approach examining not only the supply of new housing, but also critical differences with respect to housing allocation and consumption in local markets. This contextualization, as well as the emphasis on economic and political factors, were considered central to the analysis of post-socialist housing provision systems.

4 The enabling strategies and a set of principles such as empowerment, and equity discussed at Habitat II Conference in Istanbul provide the framework for division of responsibilities and more efficient operation of governments. Those principles call for redefining the roles and responsibilities of families, grassroots organizations, businesses and local governments.
This study relies on secondary sources of data and information mostly from documents of the United Nations, the World Bank, the Economic Commission for Europe, books, journals, periodicals and reports from the Urban Institute (Washington). The comparative analysis of owner-occupied housing provision for 12 CEE countries in Chapters 3 - 5 draws on statistical data from the 1996 East Central European Regional Housing Indicators Database and the Annual Bulletin for Housing and Building Statistics 1995, 1997. Data provided by the above mentioned documents are presented at the national level and sufficiently cover key characteristics related to tenure structure, housing consumption and quality, recent trends in housing investment and output.

Macroeconomic changes in CEE are obviously critical for the operation of housing markets. The study, and more specifically Chapter 3, uses evidence from 1995-1996 Transition Reports of several international institutions - the European Bank for Reconstruction and Development, International Monetary Fund and the World Bank - to present the dynamics in the macroeconomic context in a comparative perspective. Key indicators such as: fluctuations in interest rates, inflation, GDP growth, unemployment, wage levels and industrial output, provide the framework for this assessment.

Processes of housing market differentiation and fragmentation are extremely difficult to assess in a comparative perspective. A comprehensive understanding of housing market dynamics needs to be based on an analysis and evaluation of the characteristics of the existing housing stock in terms of size, type, age, quality, services,

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1 The database was developed by the Metropolitan Research Institute in Budapest with the assistance of more than 30 local housing experts in 12 countries in CEE. The project was sponsored by USAID, ECE and HABITAT.
spatial organisation. This has to be related to another set of data referring to house prices in different housing markets. It should be noted that competitive markets are a fairly recent phenomenon in CEE, so a number of institutions and professional bodies associated with their operation have not been established. Property database system and multiple listing services are non-existent. A widely accepted procedure to collect information and monitor key housing market indicators is missing. One major reason for the lack of research in the field is the difficulty in getting access to reliable information. These are significant constraints which limit the scope of the study and its analysis of emerging submarkets in Chapter 4. However, every possible effort has been made to overcome the information barriers through primary research in the Bulgarian housing markets\(^2\).

Little national/local data is published and/or collected on the private housebuilding industry. The United Nations-Economic Commission for Europe’s Annual Bulletin of Housing and Building Statistics provides general information on the construction industry in CEE. Given the fact that there is no systematic information which will provide a profile of the housebuilding industry in CEE, general data on construction firms is used in Chapter 5 to highlight the trends in the transition period. Information on operating characteristics of different firms of the Bulgarian housebuilding industry in Chapter 7 is derived largely from the surveys of private housebuilders.

\(^2\) There is a complete lack of empirical research on the topic in Bulgaria. Although some trends in land and house price formation have been studied on a general level in my previous research (Tsenkova 1994, Tsenkova 1995), data on land and house prices and the dynamics of the development process have not been explored.
A major source of data for the analysis of the Bulgarian housing markets in Chapter 6 is the 1992 and 1985 Censuses on Housing and Population. The 1992 Census relates dwelling and household characteristics, but does not include data on household income and house prices, which imposes certain limitations. Data referring to housing production, construction costs, prices of building materials and labour for Chapter 6 and 7 is obtained through various sources including: the National Statistical Institute, the Municipal Planning Departments in Sofia (the Greater Sofia Municipality) and Bourgas, the National Centre of Urban and Regional Development. Information, though very limited, referring to housing output and characteristics of newly built housing is taken from the 1994 and 1995 Statistical Yearbooks. Information on local land and house prices, albeit in a very unsystematic manner, is obtained through the newly established network of real estate agents. A number of daily and weekly newspapers - e.g. Imoti, Sofijski Imoti, Tzemomorski Far – have a housing advertising section, which supplements the 'professional market information'. Though mortgage markets are severely depressed and most purchases are paid for in cash, data from local lending institutions, especially the State Savings Bank, on the number and amount of mortgages and construction loans is used to identify particular constraints in access to formal housing finance.
APPENDIX 2: SURVEY DESIGN AND METHODOLOGY

The research strategy involved a series of steps. A preliminary set of interviews with leaders of industry associations, key representatives of local governments, planners, architects, consultants and ministry officials was carried out. These meetings were very informative and were the source of a great deal of qualitative, up-to-date information. The co-operation of institutions was crucial for the success of the study, in terms of developing the sampling frame, but also for the collection of data from unpublished sources. Housebuilder’s institutions were instrumental in determining the size of the sample, so that it would be both representative of the industry in the two cities and practically feasible within the limited time frame and budget. It has been recognised that negotiating an entry in the community under study is an important stage in the research process (Ley 1988, Eyles 1988). Being a Bulgarian with extensive research and practical experience in housing and urban development gave me an insider status and perspective.

During my two visits in Bulgaria, I conducted face-to-face interviews with 40 presidents or general managers of housebuilding firms in Sofia and Bourgas which lasted approximately an hour and a half. The first round of interviews was completed in July 1996, followed by a second round of interviews conducted in December 1996. Consequently this two stage process enabled the exploration of key research questions,

---

1 It should be noted that no single organization has a monopoly over the representation of the industry as a whole. Over the last five years, however, one significant organization – the Union of Private Builders – has emerged. The major interests of the housing industry are represented by: the Construction Chamber, the Union of Private Construction Firms, the Union of Architects, and the Association of Real Estate Brokers. Other specific housebuilding organizations include the Construction Union: Legal Initiative and the Developers Association, representing six of the largest firms in Sofia. All those organizations act as lobbying groups voicing the concerns of private housebuilders to the local and central government, the business community, the media.

2 The list of individuals interviewed is provided in Appendix 4.
generating a lot more in-depth understanding about the relationship between the economic context and housing markets. The difficulties of doing research in the midst of an economic crisis are well known, but that situation, unfortunately not unique for the economies in transition, affects the economics of housebuilding profoundly and has crucial implications for the operation of housebuilders. The sample of respondents for the in-depth interviews was selected through official registers of the two key institutions and with a snowball sampling technique. However, every effort was made to ensure that the sample represented a reasonable cross-section of housebuilders, at least with respect to firm’s size and output.

Generating the sample

There are only limited number of information sources which can be used to generate a sample of housebuilders operating in Sofia and Bourgas over the study period, 1991 to 1996. The register of the Construction Chamber (CC) in Sofia (with a regional office in Bourgas) includes mostly medium- and large firms, with public or private ownership, operating nationally. These firms are involved in diverse construction activities which are not necessarily specified. The listing of the Union of Private Construction Firms (UPCF) also suffered from the same drawback. In addition to those difficulties, it became clear that most of the big volume builders, but also a large number

---

3 To gain a better understanding of the housebuilding industry, various indices were adopted to classify the firms. Traditionally, three main measures have been utilized: the numbers of employees, numbers of dwelling completions, and annual turnover of capital (Ball 1983, Gibb et al. 1995). None of these was easy to obtain in the case of Bulgarian housing markets. More specifically, housebuilding firms were both unwilling and unable to provide information on annual turnover. Thus it was considered that size, according to output and number of employees, would be the best indicator of the many facets of the housebuilding firm.
of the small firms, were not members of those organisations. As a start those listings were screened with the assistance of the presidents and associate directors of those organisations to identify firms with significant commitment to housebuilding and a stable presence in the market place. A sampling frame of 20 housebuilders/developers operating in Sofia was established. The same strategy was employed in Bourgas where 10 firms for potential interviews were identified. In addition, the list was reviewed with experts in local housing development, and then revised and improved via the snowball sampling technique. The sampling frame was adjusted several times to reach a total size of 45. Few firms (only five in Sofia) declined an interview.

The questionnaire

The questionnaire was designed to elicit precise facts on the profile of the firm, its history and output levels, to obtain other information by means of precoded responses, and to encourage general discussion on specific topics. Given the qualitative nature of the issues explored, many of the questions were open-ended. The objective of this format was to encourage respondents to share their experiences and views on building for the owner-occupied market in the new economic circumstances.

The interview began with some general background information about the interviewee and the firm. Information on employees was readily available but complications arose in distinguishing those involved in housebuilding from those

---

4 The range of attributes of the firms interviewed was large and included local firms: individual proprietors, family owned businesses and limited partnerships. Though the focus was on specialist housebuilders, some of the firms, the volume builders in particular, carried out non-residential activities.
involved in other company enterprises. Figures for annual dwelling completions, though frequently incomplete for the full span of the survey, were supplemented with data on work-in-progress and proved to be a revealing indication of the production capacity of the firm. Respondents were very forthcoming about future prospects. Together this information provided a good indication of the scale and scope of firms’ interests and involvement with housebuilding. Information on land, construction costs and prices of dwellings constructed took time to elicit and was not always comprehensive in coverage or content. Surprisingly, nearly all respondents were quite open about their sources of finance, though precise figures were seldom provided.

A series of questions about the linkages among landlords, architects, estate agents, planners and consumers served to highlight how housebuilders related to various outside agencies and their approach to marketing. Inquiries about off-site infrastructure provision, access to land, building materials and construction technology provided polarised responses depending on the size of the firm, but also on its relative self-sufficiency, indicating intense competition in the market place.

Survey strategy

After the pre-test carried out in July 1996 I revised the original survey questionnaire. Some questions were rephrased, others eliminated to avoid inaccuracies and difficulties with interpretation. After the pretest it was felt that respondents were

---

5 The original intent of mailing a questionnaire in advance and following up with an interview proved inappropriate because of the difficulties in obtaining the address and the name of the president for each firm in the sampling frame. Time constraints were a factor, but also the type and quality of the information requested. In most cases the questions required personal contact, mutual understanding and trust.
more comfortable discussing specific projects, rather than general trends, so a range of questions was included in additional questionnaire for more in-depth discussion.

In general, there was surprising co-operation and willingness to discuss the history of the firm, its successes and the particular constraints in the market. The quality of information supplied, as expected, varied considerably and answers were not provided to all the questions. Data on house prices and construction costs in the 1991-1996 time frame were very difficult to record due to the volatility of the economic environment. This, however, is inevitable for research set in a context of great economic uncertainty. Ultimately, the results were satisfactory.

It proved useful not to ask the questions necessarily in the prescribed order, but to facilitate discussion. Often the respondents provided additional information, discussed specific projects, and ‘success stories’. Those comments were particularly useful in understanding patterns of behaviour and in identifying competitive strategies in the housing market. Frequently questions, particularly on legal and financial barriers, provoked intensive debate. Then it was a lot easier to ask the tough questions about costs, prices, profits. The overall response rate was relatively high, which is an important indicator of the success of the survey itself, but which also reduces non-response bias. It should be noted that a lot of strings were pulled to facilitate the actual organisation of the interviews. The ‘insider status’ was critical: the familiarity with the business

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6 Occasionally, it proved difficult to arrange a meeting with the presidents, but oddly enough employees and even partners were not able or confident to provide the necessary information. Firms are very much a product of their founder who bears the sole responsibility for developing and implementing the business strategy. In some cases housebuilders volunteered to recommend and even arrange an interview with presidents on the list which was crucial in getting access to the business community. Referrals particularly for the large builders were important.
environment and the development process, also personal connections with builders, architects, estate agents who provided numerous leads, information and referrals. However, this also significantly shaped the sampling frame. Another factor was also important: most housebuilders were excited about the possibility to talk about their entrepreneurial activity, they felt that there might be an opportunity to get their message across to politicians and policy makers, and finally they were interested in learning about Canadian experiences.

The first step in the analysis of the information was to ensure its accuracy and to expand it with data from company marketing materials and reports. The second step was to ensure that there was a balanced representation for each sample category. Partially completed questionnaires were also considered. In reality, few housebuilders answered all the questions and provided every bit of information correctly. For example if information on prices was judged to deviate significantly from the assumed relationship, it was eliminated from further analysis. The qualitative information proved to be extremely helpful in the assessment of social and economic efficiency of private housebuilding.
OBJECTIVE: This survey is designed to analyse the characteristics, behaviour, needs and performance of private housebuilders with respect to housing output, investment and operational strategies.

MAIN AREAS OF INVESTIGATION:

A. To establish a profile of private housebuilding firms in the marketplace focusing on: size, ownership, development strategies, market area, and sources of finance.
B. To assess the quality of the product in terms of price, size and type, thus enabling conclusions to be drawn regarding the contribution of the private sector in the marketplace and its potential for growth.
C. To identify particular barriers for the more efficient operation of the private housebuilding industry and the impact of those barriers on the supply of new housing.
D. To obtain the views of the housebuilders regarding problems and difficulties in the development process and recommendations for subsequent changes in the legal, financial and housing policy frameworks necessary for a more successful operation.

- The private housing industry is defined broadly to include developers/builters of housing, speculative housebuilders and renovators of existing housing.

Please provide copies of reports, studies or project documentation related to the housebuilding operations of your firm.

PART I: BUILDING UP A PROFILE OF THE PRIVATE HOUSEBUILDING INDUSTRY IN THE LOCAL HOUSING MARKET

1. When was the firm established? ........................................

2. Is your firm:  
   - a sole proprietorship ........................................yes[ ] no[ ]
   - a sole trader ........................................yes[ ] no[ ]
   - a commercial company ........................................yes[ ] no[ ]
   - general partnership ........................................yes[ ] no[ ]
   - limited partnership ........................................yes[ ] no[ ]
   - limited liability company ........................................yes[ ] no[ ]
3. Is the firm primarily involved in:
- housebuilding  yes[] no[]
- renovation and improvement of housing  yes[] no[]
- other activities related to real estate  yes[] no[]
- a mix of the above  yes[] no[]

The following questions focus on new housing production.

4. How many housing units did your firm complete last year?
- 0-20 units  yes[] no[]
- 21-50 units  yes[] no[]
- 50+ units  yes[] no[]

5. What is the approximate housing output of the firm in the last three or four years?

<table>
<thead>
<tr>
<th>Year</th>
<th>Housing Completions</th>
<th>Work in Progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1994</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996*</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

If exact numbers are not available please indicate whether output has increased, declined, or remained the same.

6. How many people* are employed in the entire business on a full-time basis?

- <50
- 51-100
- 101-200
- 201-300
- >300

* Employees include administration, management, architects and sales staff as well as site labour.

7. Please indicate the percentage of managerial staff

1-5
6-10
11>

8. Are the on-site workers employed
- on a self-employment basis  yes[] no[]
- employees of the firm  yes[] no[]
- indirectly through contracting  yes[] no[]
- other (please specify)  .................................................................
9. What is the geographical range of your operations? (e.g. national, regional, local...)

- Sofia: yes[ ] no[ ]
- Sofia region: yes[ ] no[ ]
- Bourgas: yes[ ] no[ ]
- Bourgas region: yes[ ] no[ ]
- Bulgaria: yes[ ] no[ ]

**PART II. THE HOUSING DEVELOPMENT PROCESS, STAGES AND MAIN STRATEGIES**

The residential development process is typically divided into five stages:

- a. Land acquisition
- b. Promotion/investment
- c. Planning approval/design
- d. Housing production/organisation of the construction process
- e. Completion/Marketing

The following questions relate to the different stages in residential development.

10. What are the land acquisition strategies used by the firm to maintain a steady flow of sites?

- partnership with landlords: yes[ ] no[ ]
- outright purchase: yes[ ] no[ ]
- land banking: yes[ ] no[ ]
- other (please specify): ................................................

11. Please comment on your preferences for the location of development sites:

- pedestrian zone: yes[ ] no[ ]
- inner city: yes[ ] no[ ]
- housing estates: yes[ ] no[ ]
- other (please specify): ................................................

12. What is the typical/usual planning status of land at the time of purchase/promotion?

- zoned for residential development: yes[ ] no[ ]
- zoned for mixed use development: yes[ ] no[ ]
- changes in zoning required: yes[ ] no[ ]

13. What is the average asking price per sq.m. serviced land zoned for medium density residential development. If exact numbers are not available, please indicate whether the cost of land has increased, declined or remained the same.

<table>
<thead>
<tr>
<th>Year</th>
<th>pedestrian zone</th>
<th>inner city</th>
<th>housing estates</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1994</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
14. What sources of finance does your firm normally use? Please indicate all sources used.

<table>
<thead>
<tr>
<th>Source</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>short-term credit from the SSB</td>
<td></td>
<td></td>
</tr>
<tr>
<td>short-term credit from a commercial bank</td>
<td></td>
<td></td>
</tr>
<tr>
<td>company’s profits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>cash advance by homebuyers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>private sources (please specify)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>mortgages</td>
<td></td>
<td></td>
</tr>
<tr>
<td>other (please specify)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

15. Which are the three most important sources of housing finance? Please rank them in order of priority. (*Prompt as necessary*)

<table>
<thead>
<tr>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>short-term credit from the SSB</td>
</tr>
<tr>
<td>short-term credit from a commercial bank</td>
</tr>
<tr>
<td>company’s profits</td>
</tr>
<tr>
<td>cash advance by homebuyers</td>
</tr>
</tbody>
</table>

16. Please provide an approximate breakdown of the following percentage of total development costs:

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>land costs</td>
<td></td>
</tr>
<tr>
<td>fees, permits</td>
<td></td>
</tr>
<tr>
<td>construction costs</td>
<td></td>
</tr>
<tr>
<td>on site infrastructure</td>
<td></td>
</tr>
<tr>
<td>development profit</td>
<td></td>
</tr>
</tbody>
</table>

17. Please estimate the approximate cost of basic inputs as a percentage of the construction cost:

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>labour</td>
<td></td>
</tr>
<tr>
<td>building materials</td>
<td></td>
</tr>
<tr>
<td>installations</td>
<td></td>
</tr>
<tr>
<td>finishes</td>
<td></td>
</tr>
</tbody>
</table>

18. Please indicate what distribution networks the firm uses for the supply of building materials:

<table>
<thead>
<tr>
<th>Distribution Network</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>direct purchase from state manufacturers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>private suppliers (agents)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

19. Do you stockpile building materials as an anti-inflationary strategy?  
   *Prompt as necessary*

<table>
<thead>
<tr>
<th>Stockpile Strategy</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>

20. Does your company own technical equipment? (e.g. mixers of concrete, trucks....etc.)

<table>
<thead>
<tr>
<th>Technical Equipment</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>

21. Do you lease equipment from state construction enterprises?

<table>
<thead>
<tr>
<th>Lease Equipment</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>
22. Please provide an approximate breakdown of housing produced by the firm in the last three years according to construction type: (in %)

- brick and concrete ...........................................
- industrialised methods ......................................
- other (specify) .............................................

23. How long does it take on average to complete a housing development scheme? ....................

PART III. MARKETING STRATEGIES

Marketing of the development typically begins at the stage of planning approval.

24. Please estimate in percentage the major types of housing constructed in the last three years:
   (alternatively actual numbers can be provided from annual reports)

<table>
<thead>
<tr>
<th>types of dwellings</th>
<th>1994</th>
<th>1995</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>single family housing: detached, town houses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>multifamily housing: apartments, maisonettes</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

25. What is the average size of new dwellings constructed by your firm in the last three years?

- single family housing (sq.m.) ...........................................
- apartments (sq.m.) ....................................................

26. What type of apartments currently sells most on the market?

- one bedroom                                             yes[]  no[]
- two bedroom                                             yes[]  no[]
- three bedroom                                           yes[]  no[]
- more than three bedrooms                                 yes[]  no[]

27. What is the average asking price per sq.m. for a completed dwelling in your local market area?

   apartments

   pedestrian zone .................................................
   inner city ...........................................................
   housing estates ...................................................

28. Does the firm use in-house or contracted agencies to identify sites and to market the new units?

   yes[]  no[]
**PART IV. BARRIERS AND PROBLEMS IN THE DEVELOPMENT PROCESS**

*Please comment on existing and emerging factors affecting housing development and efficient operation in local housing markets.*

29. Was your last housing development project jeopardised by any of the following problems?

<table>
<thead>
<tr>
<th>Problem</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>inflation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>delay of planning application</td>
<td>yes</td>
<td>no</td>
</tr>
<tr>
<td>financial difficulties</td>
<td>yes</td>
<td>no</td>
</tr>
<tr>
<td>legal constraints</td>
<td>yes</td>
<td>no</td>
</tr>
<tr>
<td>technical problems with equipment</td>
<td>yes</td>
<td>no</td>
</tr>
<tr>
<td>building materials shortages</td>
<td>yes</td>
<td>no</td>
</tr>
<tr>
<td>others (please specify)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Please refer to all problems faced.)

30. Please indicate the most significant barriers for a more efficient operation in the marketplace:

<table>
<thead>
<tr>
<th>Barrier</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>legal issues</td>
<td></td>
<td></td>
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<tr>
<td>financial issues</td>
<td>yes</td>
<td>no</td>
</tr>
<tr>
<td>co-ordination/management issues</td>
<td>yes</td>
<td>no</td>
</tr>
<tr>
<td>institutional barriers</td>
<td>yes</td>
<td>no</td>
</tr>
<tr>
<td>land and property rights issues</td>
<td>yes</td>
<td>no</td>
</tr>
<tr>
<td>building codes</td>
<td>yes</td>
<td>no</td>
</tr>
<tr>
<td>taxes</td>
<td>yes</td>
<td>no</td>
</tr>
<tr>
<td>other (please specify)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

31. Please state the most urgent assistance your firm needs to become more efficient:

<table>
<thead>
<tr>
<th>Assistance</th>
<th>Description</th>
</tr>
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<tbody>
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</table>

32. Briefly outline your recommendations for changes in the policy framework.

<table>
<thead>
<tr>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
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</tbody>
</table>
Please send any additional materials to:
Sasha Tsenkova
8 Gurguliat Street, Sofia 1000
tel: 89-3361
**PART V: ADDITIONAL QUESTIONS FOR AN IN-DEPTH INTERVIEW**

1. Please specify the project name and address of recently started or completed housing projects. Please include the information irrespective of the final outcome.

   **Project A:**
   - **Project name:** ............................................................
   - **Site address:** ............................................................

   **Project B:**
   - **Project name:** ............................................................
   - **Site address:** ............................................................

2. Project characteristics:
   (*Please specify*)

   - **number of housing units** ...........................................
   - **type of units (flats, houses, etc.)** ............................
   - **size of units (# of bedrooms)** ...................................
   - **average selling price (lev per sq.m)** ...........................
   - **type of development**
     - newly built  
     - refurbishment

<table>
<thead>
<tr>
<th></th>
<th>A.</th>
<th>B.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
</tbody>
</table>

3. Did your firm own the site?
   - **project A**
     - yes [ ]  no [ ]  *Move to question 4a.*
   - **project B**
     - yes [ ]  no [ ]  *Move to question 4b.*

4a. If no, please specify whether the site was in public or private ownership.

4b. If no, please specify whether the site was in public or private ownership.

5. Did your housing development project proceed to completion?
   - **project A**
     - yes [ ]  *Move to question 6.*  no [ ]  *Move to question 7.*
   - **project B**
     - yes [ ]  *Move to question 6.*  no [ ]  *Move to question 7.*

6. Did your development project proceed as anticipated at the initial start?
   - **project A**
     - yes [ ]  no [ ]
   - **project B**
     - yes [ ]  no [ ]
7. If the projects were unsuccessful indicate the likely future.

<p>| | |
|   |   |</p>
<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
</tr>
</thead>
<tbody>
<tr>
<td>• project is to be amended</td>
<td>0</td>
</tr>
<tr>
<td>• project is to be suspended</td>
<td>0</td>
</tr>
<tr>
<td>• project is to be abandoned</td>
<td>0</td>
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</tbody>
</table>

Other questions for discussion:

8. How do you estimate the risk for your investment?

9. Currently what is the market share of your firm in the local owner-occupied market?

10. Who are your major competitors?

   - private firms: yes [ ] no [ ]
   - state construction firms: yes [ ] no [ ]
   - joint ventures with foreign firms: yes [ ] no [ ]

12. Please comment on the business environment (taxes, incentives, contracts).

THANK YOU FOR YOUR KIND ASSISTANCE.
APPENDIX 4: INDIVIDUALS INTERVIEWED DURING THE COURSE OF
THESIS RESEARCH

(Name, Position, Firm/Organization)

Dr. Tatiana Belkina, Head of Housing Research Centre, Russian Academy of Sciences, Moscow
Vesselin Blagolev, Executive Director, Privatisation Agency, Sofia
Dipl. Ing. Miltcho Blagoev, Member of the Board of Managers, SCEB, Sofia
Dr. Wlodyslaw Brzeski, President of the Board, Cracow Real Estate Institute, Krakow
Nicolaj Bozkov, Head of Construction Industry Department, Ministry of Regional Development and Construction, Sofia
Boris Budinov, General Manager, Privatization Fond Vazragdane AD, Sofia
Nicolay Chakarov, Senior Expert - Industry, BRDA, Bourgas
Barbara Christensen, Assistant Professor, University of Ljubljana, Ljubljana
Ing. Svetomir Dochev, General Manager, Bulgarian Real Estate AD, Sofia
Arch. George Donchev, Co-president, Studio 66, Bourgas
Dr. Hans-Joachim Dubel, Senior Economist, Empirica, Berlin
Arch. Petko Evrev, Deputee Minister, Ministry of Regional Development and Construction, Sofia
Dr. Tibor Frank, Director, Canadian Urban Institute, Toronto
Kostadin Georgiev, Head of Public Relations, Bulgarian National Bank, Sofia
Borcsok Gizella, Project Co-ordinator, Canadian Urban Institute, Budapest
Branimir Handjiev, Head of Department, Bulgarian Industrial Association, Sofia
Dr. Michael Hoffman, Advisor, USAID, Sofia
Ing. Hubanov, Head of Housing Policy Division, Ministry of Regional Development and Construction, Sofia
Ing. Vasil Iliev, Manager, Regional Union of Private Construction Firms, Bourgas
Dr. Koloman Ivanicka, Associate Professor, Slovak Technical University, Bratislava
Ing. Eduard Ivanyi, General Secretary, Bulgarian Building and Construction Chamber, Sofia
Anastazija Janusiene, Deputy Head, Vilnius City Municipality, Vilnius
Ing. Milada Kadlecova, Head of Research, UUR, Brno
Dr. Olga Kaganova, Research Associate, International Activity Centre, Washington D.C.
Maya Koleva, President, MTKK, Sofia
Julia Krusashka, Chief Editor, Imoti, Sofia
Lars Ludvigsen, Head Of European Office, United Nations Centre for Human Settlements, Geneva
Ivan Minev, Vice President, Bulgarian Chamber of Commerce and Industry, Sofia
Iouri Moisseev, Human Settlements Officer, United Nations Centre for Human Settlements, Nairobi
Ing. arch. Penka Nikolova, Expert, Bulgarian Building and Construction Chamber, Sofia
Charles Palasty, President, CEDC, Budapest
Dipl. Ing. Ioan Petica, Deputy General Director, ARACO, Bucharest
Attila Potoczky, Councillor, Municipality of Peterzsebet, Budapest
Ivanka Pratova, Manager, Immobilien, Sofia
Augustinas Riginis, Vice Director, Institute of Architecture and Construction, Kaunas
Ricardas Sabaliauskas, Chairman, Vilnius City Board, Vilnius
Dipl. Ing. Daniel Simeonov, President, SD Ltd, Sofia
Ludek Sykora, Lecturer in Urban Geography, Charles University, Czech Republic
Ing. Petko Tabakov, Chairman, Union of Private Construction Firms in Bulgaria, Sofia

HOUSEBUILDERS IN BOURGAS:

Dimitar Jelev, President, Masters
Ing. Janikjan Bedig, General Manager, Standard OOD
Dimitar Bujukliev, President, Bujukstroy
Ing. Emil Danailov, President, ET-SIT
Dimitar Dobrev, President, Elza-95
Dimitar Milkov, President, Iridon
Georgi Mintchev, President, Geoton
Todorka Nenova, President, ET Nenova
Janko Simeonov, President, Radian-S
Stoyan Stojanov, President, SAT

HOUSEBUILDERS IN SOFIA:

Vladimir Andreev, Managing Director, Bisi Ltd.
Emil Angelov, Manager, Citycom OOD
Ing. Milcho Blagoev, President, NIKMI
Georgi Dimitrov, President, Uno
Ing. Egmont Jakimov, Retail Manager, Bokar OOD, Sofia
Iordan Kazakov, President, Lozenetz-Konsult
Ing. Koljo Kisiov, President, Kimko
Christo Kovatchev, President, Exact-OOD
Dipl. Ing. Kosta Kostov, President, Inztalant
Ing. Nikolaj Kozanov, President, NIKMI
Ljubomir Lazarov, President, Citybuild EOOD
Dr. Leon Levi, President, Infrar Ltd.
Georgi Mladenov, President, Bigla-7
Philip Milanov, President, Filto-S
Ing. Radi Miladinov, Vice President, SITA-92
Dipl. Ing. Nedialko Nedialkov, President, Elitstroy
Milko Pamouktchiev, President, Pam Index
Arch. Emanuil Popdimitrov, Vice President, Elistroy 91 Ltd.
Krasimir Radgov, Executive Director, Intertime Invest AD
Nikola Radovanov, Manager, GBI
Dimitar Ragin, President, Reali
Yordan Stoilkov, President, Rilski Orleta
Anna Stojanova, President, Fair Play International OOD
Boris Shalev, General Manager, Bigla
Ivan Sirakov, President, Univer-C
Ing. Nikolaj Stankov, President, Mramoroid
Ing. Nikolaj Takov, President, Komans OOD
Kiril Terziev, President, ET KRT
Ing. Georg Tomov, Vice President, Citycom OOD
Nikolaj Tonkov, General Manager, JODI
Ing. Ivo Totev, President, Imovina
Arch. Svetlana Venkova, Vice President, Barbukov
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NSI (Nationalen Statisticheski Institut-Regional Office Bourgas) (1997b) Statistichesko Nabljudenie na Stroitelstvoto. unpublished data.


IMAGE EVALUATION
TEST TARGET (QA-3)

1.0
1.1
1.25
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1.6

150mm
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1.0
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