

*Affordability
Sustainability
Livability*



HOUSING REVIEW 2015



On the cover

A girl washes her feet from a water tap in the interior courtyard of a block of flats in Baia Mare, Romania on July 21, 2011 where the mayor has decided to construct a wall around the flats housing a majority of Roma families.

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Housing Review 2015

AFFORDABILITY, LIVABILITY, SUSTAINABILITY

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FOREWORD



The housing crisis sparked by the 2008 global financial meltdown is far from over in Europe. The facts listed in the 2015 Habitat for Humanity Housing Review make evident this silent emergency. Some 10.1 percent of European households suffer from housing cost overburden, and 36.9 percent of these are also at risk of poverty. According to Eurostat, nearly 50 million Europeans (9.6 percent of the European Union's population) live in severe material deprivation. This rate is almost twice as high (18.6 percent) in new member states. Resolution of the crisis does not look imminent as the share of young adults age 18-34 living with their parents is at record highs, reaching 55 percent of young adults in Portugal, 66 percent in Italy, and 74 percent in Slovenia.

The housing situation for Europe's middle- and low-income groups has not improved significantly since the 2013 Housing Review. Despite this, Habitat remains determined to push for change, and help lead and define new policies.

Our aspiration with the 2015 Housing Review is to continue to raise the alarm on Europe's housing crisis, to shape the debate on regional and national housing policy discussions, and increase understanding among politicians, governmental officials, academics and civil society on what it means to provide affordable, sustainable and livable housing for Europe's middle- and low-income groups.

What emerges in the three thematic chapters is that Europe needs to look at better ways of developing and providing housing that helps Europeans, regardless of class or income, have a decent place to live. It needs to augment investment in sustainable housing ranging from building materials and technology to construction practices to make current and future building more resilient, environmentally friendly and economically viable. Finally, the trends and threats to Europe's middle- and low-income neighbourhoods need to be analysed and concrete solutions developed to ensure the region's cities remain livable for everyone.

The 2015 Housing Review concludes with updated statistics and analysis, based on the 2013 edition, on housing in 15 European and Central Asian countries. The most worrying trend is the limited, or in some countries the complete lack of, new social housing. The arrival of thousands of refugees from conflicts in the Middle East and Africa over the past 18 months means more people than ever in Europe need access to social housing. Habitat is alarmed that only a very few European countries are responding on a large scale to this worrying shortage.

Our next step is to make certain that the issues raised in this Review are at the core of regional and national discussions. In the longer term, we will publish biannual reports that monitor the state of housing in Europe. The goal is to be an alternative reference publication, which offers independent expert analysis on Europe's housing industry. Finally, this publication is one pillar in Habitat's regional efforts to ensure that Europe's political and private sector leadership do not forget that middle and low-income people need safe and livable homes today and in the future.

Greg Foster

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EXECUTIVE SUMMARY

Europe's middle- and lower-income groups are facing a major housing crisis. According to the European Union's statistics agency, Eurostat, 3 million people in the region were homeless in 2010, while 17 percent were ill-housed, meaning they lived in poor conditions or were threatened with losing their home. The situation has improved little in the past five years.

The 2015 Housing Review from Habitat for Humanity aims to shape the debate around Europe's multitude of housing policies. The review looks at the latest European housing crisis through three themes:

Affordability — getting people into housing and keeping them there.

Sustainability — building energy-efficient, environmentally friendly residential housing and living spaces.

Livability — creating communities of the future through social integration and community building.

The review, which is divided into two parts, each with four chapters, examines the issues and offers long-term solutions that could provide fair housing for Europe's middle- and lower-income citizens.

Part One, Chapter 1 includes an overview of the latest facts and figures related to the three themes. It assesses the diversity of housing problems throughout the region and provides insight into challenges the “new poor” living in urban centers and the “traditional poor” in rural areas are facing in relation to housing. It advocates for a convergence of national housing policies into one European model that can be adapted to different contexts.

Part One, Chapter 2 highlights measures of housing affordability in order to better understand the extent of the problem; review trends, policies and practices over the past century; and analyze current efforts to help resolve, or at least alleviate, affordability problems for Europe's lower-income groups.

Part One, Chapter 3 examines the debates about the meaning and the key characteristics of sustainable housing. It explores evidence regarding the European countries that are leaders and laggards in housing sustainability.

The next section examines the policies most often employed to promote sustainable housing and highlights intercountry differences in the highly varied policy

landscape, while also identifying good practices. The closing section identifies the barriers to the effective design and implementation of sustainable housing policies.

Part One, Chapter 4 aims to clarify the many definitions of livability, how it is incorporated into European policy, and the current research of non-governmental housing organizations advocating for affordable housing. The chapter goes on to explore the main threats to Europe's middle and low-income neighborhoods. It raises alarm on the increasing gap across all larger European cities between poverty and affluence, dynamic and poor areas, centre and periphery – spatial and social.

It concludes by advocating for community-driven social housing programs that have the potential to provide opportunities to create new homes for low-income groups. Concrete examples are provided from different European countries of community-driven housing and land-use to show the positive impact these programs have had on low-income communities. These bottom-up initiatives open up new perspectives on potential partnerships and community-driven opportunities to respond to the major trends in society and neighborhoods.

Part Two is an update of the 2013 Housing Review with the latest numbers and new information related to housing in Europe and Central Asian (ECA) countries. The latest figures show there are some positive trends, with ownership increasing to 90 percent in most ECA countries. Additionally, housing costs in relation to total household expenditures remained stable in most countries or even decreased as governmental policies succeeded in keeping costs in line. The bad news is that the rental sector is stagnant and social rental housing has further declined in most ECA countries, and housing policies are not prepared to handle the demographic shift of an aging population that does not have the financial means to maintain their homes.

The review ends with an annex providing detailed analysis and statistics on the different trends that affect Europe's housing policies.

PART ONE

HOUSING ASSESSMENT 2015



Affordability, sustainability, livability

Examining the diversity of housing problems in Europe.

Pictured: Sali family, Macedonia.

"Over the years, our house fell apart and we had no way of preventing it because we simply never had the money and no bank would consider us for a loan."

©Habitat for Humanity International/
Phil Lampron

I

Housing in Europe

by József Hegedüs and Vera Horváth
Metropolitan Research Institute

This chapter highlights the most critical aspects of the current housing issues in Europe, and the important challenges the European Union (EU) and its member states face in housing. It also provides recommendations to strengthen convergence in its approach to social housing policy, despite the fact that the 2008 Great Financial Crisis pushed most European political forces toward divergence both in the EU Parliament and in individual nation-states.

Although housing is not an EU competence, numerous reports¹ have pointed out that EU policies have a strong influence on national housing regimes, and the EU could and should influence member states' housing policies in several areas. These include the provision of adequate housing to low-income and vulnerable populations, and ensuring security of tenure for lower- and middle-income households. Moreover, housing is an important sector of the economy in a broader sense for its role in job creation, economic growth, labor mobility and welfare, among other reasons.

This chapter draws on the documents and analyses of European housing institutions, particularly EU and Eurostat, European Federation of National Organizations Working with the Homeless (FEANTSA) and The European Liaison Committee for Social Housing (CECODHAS). It places substantial emphasis on the diversity of housing problems among the different socioeconomic subregions, and it defines the twofold housing problem of the “new housing poor” of the

most developed regions and urban centers and the systematically underfinanced “traditional poor” who live in absolute material deprivation, particularly on the rural periphery of Europe.

1. Housing problem in Europe

This review examines housing problems in Europe from three partly interconnected perspectives:

Affordability — Getting people into housing and keeping them there in the long run.

Sustainability — Energy-efficient and environmentally friendly residential buildings and living spaces. (This includes planning, energy efficiency, transportation costs.)

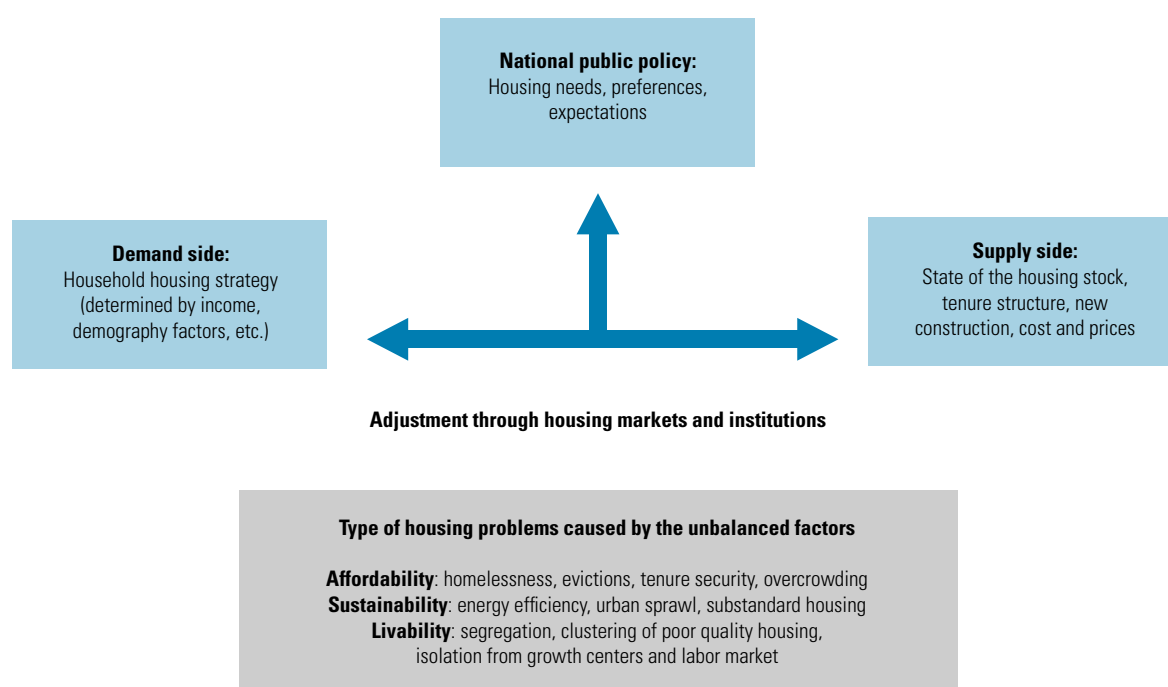
Livability — Creating communities of the future through social integration and community building.

The major problems European households face in terms of housing can be interpreted in the framework of a **triple imbalance among households' strategies (demand side), housing stock and costs (supply side), and public policy expectation (defining “socially acceptable” standards of housing consumption).**

¹ CECODHAS, 2012; Housing Europe, 2015.

Figure 1 Conceptualizing housing problems in Europe: The triple imbalance of housing demand (households), housing supply (market) and the national housing policy frameworks (“socially acceptable” housing standards)

Source: Metropolitan Research Institute



Although the growing burden of housing costs on households is an overall European phenomenon, its causes and consequences — meaning the actual manifestation of housing cost overburden, livability and sustainability — are fundamentally different in the dynamically growing and shrinking regions. For households with an acceptable income level, the imbalance is triggered by the lack of appropriate adjustment mechanisms to changing circumstances in the three factors of demand, supply and policy, while the “traditional” poor suffer from policymakers’ inability to manage these factors in the long run.

Housing cost overburden (defined as having housing costs that require 40 percent or more of the full disposable household income) has been increasing all over Europe among lower-income groups, and it seems to be the most prominent on the two extremes: in the most dynamically growing urban centers and in the least-developed regions — particularly in shrinking cities and towns, and in rural areas with poor economic prospects. In 2010, average housing costs in the EU 27 amounted to 22.5 percent of disposable income but reached 41 percent in low-income groups (households below 60 percent of the median national income). Overall, 10.1 percent of European households suffer from housing cost overburden, and 36.9 percent of these are also at risk of poverty.²

In fast-growing urban regions such as London, Berlin or Stockholm, house prices and rents have increased much more than incomes. Clearly, there are differences on the national level, but differences on the regional level (levels 2 and 3 of the Nomenclature of Territorial Units for Statistics, or NUTS2 and NUTS3) are much more significant. According to a survey of 79 European cities, the inhabitants of the most-developed cities (Paris, Helsinki, Amsterdam, Luxembourg, London, Brussels) disagree most with the statement that “it is easy to find

housing at a reasonable price in {CITY NAME}”.³ The rate of people disagreeing with this statement was typically 80 to 95 percent in the most developed urban regions, while only 32 to 50 percent in less-developed areas. In these regions, house prices and rents (in the private rental sector) have increased much faster than incomes, although incomes are much higher than in the less-developed European regions in real terms, but also when calculated by purchasing power standard (PPS) (see Table 1).

The “triple imbalance” described above means that housing problems in terms of affordability, sustainability and livability will be defined by the mutual influence of housing market needs shaped by consumer perceptions, housing market supply and costs, and policy goals and standards. An example of imbalance is provided by dynamic cities, where growing rents and prices push out even middle-income households, and where policymakers do not seem prepared to tackle the most recent challenges of rent and house price booms.⁵ Another typical example is provided by shrinking regions, where the loss of jobs leads to dropping incomes and housing market values; low-income households remain trapped in these areas because housing is unaffordable for them elsewhere, and policy responses focus on improving the environment of lagging areas rather than supporting housing closer to viable job markets.⁶

² CECODHAS, 2012.

³ Eurobarometer, 2013.

⁴ Note: Local purchasing power shows relative purchasing power in buying goods and services in a given city for the average wage in that city in comparison with New York. Rent index is an estimation of the price of renting apartments in the city compared with New York. Price-to-income ratio is the ratio of median apartment prices to median familial disposable income, expressed as years of income.

⁵ Eurofound, 2012; Eurobarometer, 2013.

⁶ Iceland, 2014.

Table 1
House price, rents and incomes in selected European capital cities (2014)⁴

Source: Numbeo.com

City	Price/Income Ratio	Rent Index	Local Purchasing Power Index
Berlin	8.3	24.1	137.1
London	30.5	84.6	100.6
Paris	20.6	47.8	129.8
Stockholm	14.1	36.6	147.6
Athens	8.8	10	71.5
Budapest	10	11.6	68.3
Riga	10.5	12.5	68.7
Zagreb	10.9	10.9	77.9

In all cases, this leads to worsening affordability, which in turn often leads to overcrowding. In 2012, 17 percent of the EU 28 population lived in overcrowded housing, ranging from 1.6 percent in Belgium to 51.6 percent in Romania. The overcrowding rate was typically above 25 percent in new EU member states and in Southern Europe (notably Italy and Greece). Partly because of growing youth unemployment, the share of young adults age 18-34 living with their parents has been growing for decades, reaching 55 percent of young adults in Portugal, 66 percent in Italy, and 74 percent in Slovenia. This stands in stark contrast with the simultaneously growing number of vacant housing in the same slow economy regions. In 2011, the number of vacant homes was 11 million,⁷ and the rate of empty homes was much higher on the EU's periphery: 3.4 million are located in Spain⁸ because of the pre-crisis construction boom, and Greece and Portugal also have huge vacancy rates. The number of abandoned dwellings is also massive on the Eastern periphery, from the Baltics down to Bulgaria, a country that has lost nearly one-fifth of its population since 1990, partly because of heavy emigration.

Besides statistically measurable factors such as cost overburden and overcrowding, recent developments have undermined other, less clearly quantifiable factors, particularly tenure security. According to Eurostat data, in 2010, 3 million EU citizens were homeless, and 17 percent of the population was “ill-housed” — living in substandard housing with no significant chance of improving their living conditions — or living under the threat of losing their home.⁹ **Wavering tenure security** affects more than just the poorest of Europe. While the middle- to high-income strata of member states may have weathered the crisis and recession with tolerable losses, the situation of much of the lower-middle classes turned precarious, and based on Eurostat data, private market renters have been under the most pressure. This is expressed not only in the lower-middle-income groups being priced out of developing or gentrifying downtown areas, but also in the growing share of arrears — in rent, mortgage repayment, utilities — that might force a household to move to a less attractive residential environment or lower-quality housing. Living in **substandard housing**, on the other hand, affects the lowest-income groups both in poor urban neighborhoods and in remote “weak market” rural areas cut off from the job markets.

The territorial distribution of housing problems is obviously uneven, but it must also be pointed out that it is not limited to national borders; there is a growing divide between regional and urban-rural residential conditions, and simultaneously a growing divide within urban and rural areas, which may also manifest in residential segregation.¹⁰ The lack of appropriate and affordable housing solutions in cities forces a growing number of

people to the low end of the housing market, in low-quality housing, away from the job market and access to public services.

Finally, spatial segregation triggered by social and economic inequalities is a phenomenon of prevailing significance in Europe. Ethnic enclaves, particularly in low-income urban neighborhoods or rural areas with low overall housing quality, tend to persist over time. Although historic segregation patterns are not insignificant, many of the segregated urban areas in Europe are the result of relatively recent international migration from developing countries.¹¹ Accordingly, a simplified image of “ghettos” in Europe shows poor urban neighborhoods populated by international migrants on the one hand and extremely poor remote rural segregated areas, particularly the precarious Roma communities of Southern and Eastern Europe, on the other. With some of the more recent EU accession rounds, the influx of extremely poor Roma groups into dynamic Western urban areas also began, causing some levels of social tension. Historically embedded (“traditional”) segregated minority populations are to this day more typical of the periphery of the EU (Southern and Eastern European countries), while new international migrants enter in much greater numbers in the most dynamically developing urban regions, and this latter trend only seems to be reinforced by this year's international migrant crisis.

2. Main causal factors of housing risks and challenges

Europe's current housing systems and their problems stem from a number of fundamental factors — such as the economic, demographic and social trends of modern developed societies, including the technological changes influencing the built environment — and corresponding market and policy reactions.

2.1 Economic trends and the commodification of housing

An international trend of marketization and privatization efforts has taken place in most of Europe since the 1970s and 1980s, and from the early 1990s in the former communist countries. In modern developed economies, housing is both a consumer good and a capital good, and the greater the level of housing deregulation, the more tightly housing is integrated into the market economy.

⁷ “Scandal of Europe's 11m Empty Homes” theguardian.com/society/2014/feb/23/europe-11m-empty-properties-enough-house-homeless-continent-twice; 23 February, 2014; 7 September, 2015.

⁸ “Spain Has Empty Homes for All EU's Homeless” thelocal.es/20140225/spain-worst-in-europe-for-empty-properties 25 February, 2014, last accessed: 7 September, 2015.

⁹ Ottolini and Nardi, 2010.

¹⁰ Eurostat, 2014; Iceland, 2014; Ottolini and Nardi, 2010.

¹¹ Iceland, 2014.

Integrating the financial markets into housing finance has proved to be an efficient way to attract funds into the housing sector,¹² but the development of secondary mortgage markets (mortgage securitization) led to mortgage rates reflecting current interest rate changes much more quickly. However, as a consequence of housing being a capital good, market demand is driven not only by a need for homes, but also by investor demand, which distorts the market of housing as a consumer good. Housing becomes less affordable as market demand becomes heavily influenced by investment motives, which is illustrated by the evolution of house prices compared with GDP growth in most European countries.¹³ Looking at United Kingdom (U.K.) house price trends, Figure 2 illustrates that the housing market is moving between extremes of overvaluation and undervaluation against the country's GDP growth trend (see Figure 2). Although providing detailed analysis of the relation of house and rent price in major European cities goes beyond the scope of this chapter, it is safe to state that housing market prices (both rent and purchase prices) changed much more rapidly than the rate of economic growth, and individual households have suffered greatly as a consequence.¹⁴

As long as marketization efforts go together with welfare state cuts — as was typical in most European countries in the past decades — they also undermine households' ability to adapt to increasingly more intense market changes. House prices, rents and interest rates are connected to **rapid business cycles and change much more rapidly than household incomes**. This implies that by the time the economy emerges from a recession, household incomes will have increased much less than housing-related costs (e.g., interest rates, rents and prices).

As housing is also a “capital good,” quickly alternating economic booms and downturns result in swift and significant changes in housing prices and costs, to which households — even the ones with stable income levels in the long run — are unable to adapt. The housing markets reflect this not only in global centers such as Berlin, London or Stockholm, but even in smaller regional urban centers such as Budapest, Bucharest or Zagreb, where short-cycle price and rent booms easily destabilize the situation of lower-income households.¹⁵

These two dynamics — the growing role of housing as an investment good and the discrepancy between economic and housing market price development — detach housing sector trends from the development of economic fundamentals, and housing costs, rents and prices become increasingly determined by capital market trends.

In European countries, the level of economic development is usually in line with the level of housing consumption, which is reflected in the average quality of housing, e.g., the quality of design, the level of comfort, energy efficiency and the flexibility for redesigns and renovations.

¹² Jaffe and Renaud, 1995.

¹³ Azariadis et al., 2012.

¹⁴ “Why It's Nearly Impossible to Rent an Apartment in Stockholm,” 12 September, 2014, qz.com/264418/why-its-nearly-impossible-to-rent-an-apartment-in-stockholm, last accessed 9 September, 2015; “Berlin Becomes First German City to Make Rent Cap a Reality,” 1 June, 2015, theguardian.com/world/2015/jun/01/rent-cap-legislation-in-force-berlin-germany, last accessed 9 September, 2015; “Average Monthly London Rents Hit £1,500 for First Time, Says Survey,” 15 June, 2015, theguardian.com/money/2015/jun/15/london-rents-homelet-survey-housing-crisis, last accessed 9 September, 2015; “There's Only One City in Europe With Both Ample Jobs and Cheap Housing,” 25 October, 2013, citylab.com/work/2013/10/theres-only-one-city-europe-both-ample-jobs-and-cheap-housing/7355/, last accessed 9 September, 2015.

¹⁵ Hegedüs et al., 2014; Bejan et al., 2014; Jakopic et al., 2014.

Figure 2 UK real house prices relative to GDP growth, 1986-2010 (with forecast for 2011-2014)

Source: <http://www.marketoracle.co.uk/Article22397.html>



Under balanced economic growth, where the growth of the financial sector remains on par with real growth, housing consumption can increase in proportion to economic growth. Higher housing consumption will usually indicate higher household incomes, demographic growth or other “balanced” fundamental factors that prompt a reasonable change in the production of housing as a consumer good. On the contrary, **unbalanced growth** stems from the separation of economic and welfare institutional structures from real economic production. In this case, an increase in housing consumption is not necessarily in line with fundamental changes. A classic example of this is Spain, where the pre-crisis construction boom indicated a massive rise of speculative residential investment rather than a growing need for homes, but the high housing standard expectation in the new member states had caused distortion in the market as well.

Under such unbalanced economic growth, incentive structures set by housing policy subsidies and tax systems “misinform” housing market actors. The risks formerly assumed by investors and developers are now spread among all real estate actors, including households who own housing as a consumer good, and they rarely have precise information about the risks they now share. As the crisis has shown, banks offering low interest rate mortgage loans prompt people to buy homes they cannot afford once the economic boom is over, and the homeownership bias of the public (tax and subsidy) system also contributes to crowding out the unsubsidized rental sector, which would be indispensable in an economic downturn.¹⁶ Moreover, in countries where the liberalization of housing finance and the real estate market was more advanced, the impact of the global financial crisis was also greater, and public policy was unprepared to manage the risks placed on private households.

Unbalanced economic growth can therefore easily lead to overinvestment or underinvestment in housing, depending on apparent profitability rather than on housing needs. Housing market bubbles — as in the United States or Spain before the global financial crisis — are typical examples of over-investment, while a chronic shortage of appropriate housing — as is the case in Poland — is an example of underinvestment. On the micro level, households will typically overconsume or underconsume housing in line with their institutional surroundings.

The risks of fully integrating the housing sector into the economy are therefore clear. At the same time, numerous examples have shown that fully separating “social” or “affordable” housing from market feedback makes it financially unsustainable in the long run. Heavily state-subsidized rental housing in former communist countries provided very affordable rental housing in Central and Eastern Europe before the transition, but its long-

term impact on the housing sector was disastrous, and rushed privatization was the almost exclusive policy tool these states used to manage their loss-generating housing stock during transition. But this tradeoff is not limited to former communist countries. Even in the most developed EU member states, such as the U.K. or the Netherlands, keeping social housing affordable to residents was deemed too expensive to social landlords, so social housing providers were eventually pressured into becoming financially more autonomous in the form of self-sustaining, low-profit housing associations.

Based on the economic and financial growth and deregulation trends since the 1970s and the merging of housing finance into the general financial sector in the 1990s, our key diagnosis is that the risks inherent in the commodification of housing have eventually surfaced in the global financial crisis. At the same time, demanding the re-regulation of housing finance is hardly an option at this point. Hence the way forward is to create mechanisms in the housing sector that leave time for households to react to market changes.

As a conclusion, this chapter argues that separating housing finance from the overall financial market is not only unfeasible, but also would be an irrational expectation after decades of development in the opposite direction. It instead would be advisable to create mechanisms that allow households some delay to react to market forces. The most important reason households and their policy and market environment fall out of balance is ignoring externalities both in terms of affordability and sustainability: long-term objectives are generally sacrificed for short-term gains. While creating a protective buffer between housing finance and the general financial markets, housing funding will become slower, but households may have a transitory period to adapt to market changes.

2.2 Income inequality and poverty

Europe’s housing problem (in terms of affordability, sustainability and livability) is strongly influenced by absolute income level differences among national economies and regions, along with the rate and patterns of income inequality. While the literature has already pinpointed growing inequalities within the EU, regional disparities doubled with the accessions of former communist countries.¹⁷

¹⁶ This trend is more likely to affect the “new housing poor.” (Lower) middle-class households took on attractive mortgage loans to improve their housing consumption either through buying or renovating, which then proved unexpectedly costly in the wake of the crisis. Nonetheless, experience on the “fringes” of Europe shows that a fairly large number of low-income households were also provided low-interest mortgage loans to buy homes in weak market areas, who then ended up trapped in a debt spiral (particularly in cases involving ForEx loans).

¹⁷ Fredriksen, 2012; Petrakos, 2009.

Furthermore, it is important to keep in mind that in the field of housing, inequalities in overall household wealth are much more significant than income inequalities alone, as families with higher economic, cultural and social capital accumulate wealth throughout generations, which can then be invested in appropriate housing, while people and families at the lower end of the social spectrum typically have to manage their housing situation with no helping background or network, and often in a context of poor or unreliable social housing provision.

While analysis at a national level is still clearly crucial, Europewide and local housing transactions are gaining importance. On the one hand, when housing is considered as a capital good, the internationalization of housing markets is a global phenomenon but is even more intensive on the EU level. And on the other, when housing is considered a consumer good, most housing markets are segmented into local or regional submarkets, rather than consisting of a single, even national, market. These two parallel phenomena are the effect of income disparities on the European and local levels. Importantly, they rarely appear in Eurostat (national) data. In relation to housing quality, they have grave consequences:

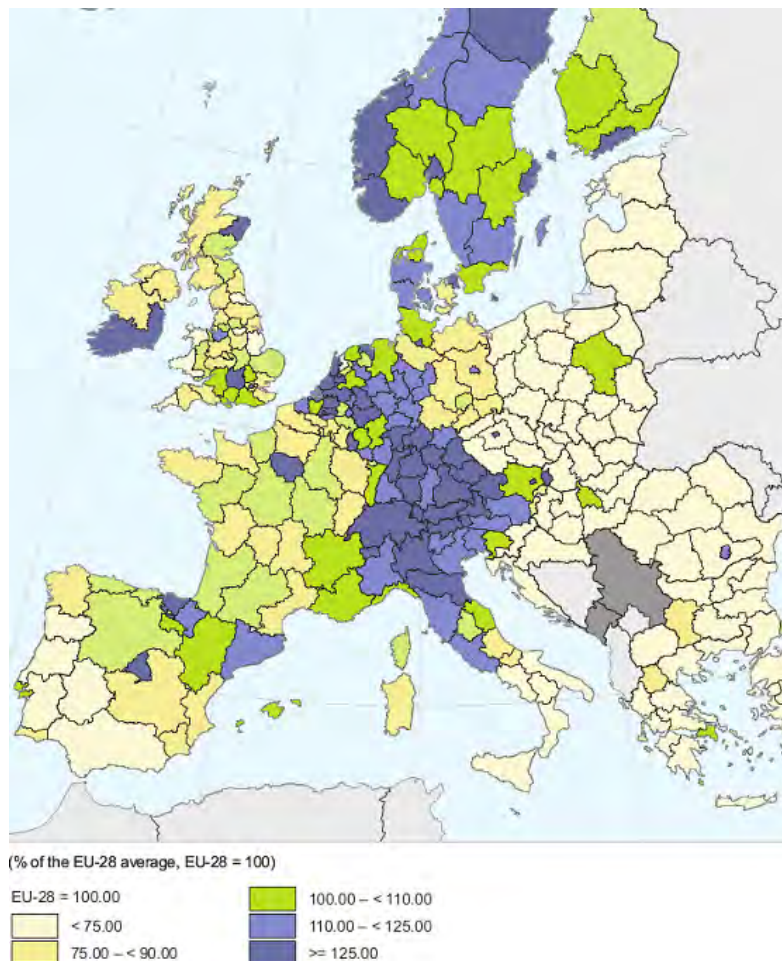
(1) A large share of Europeans are **income-poor** in an absolute sense. According to Eurostat, nearly 50 million Europeans (9.6 percent of the EU's population) lived in severe material deprivation. This rate is almost twice as high (18.6 percent) in new member states.¹⁸ As housing costs usually require a large share of the household budget — and even more so for low-income families — these people also face housing deprivation; they are often stuck in remote areas away from job markets and public services, and have no means — neither income nor benefit — to change their situation.

(2) Another large share faces relative housing deprivation. Although they do have regular income, housing markets in their city or region have been changing in a way that makes it increasingly strenuous to maintain their current level of housing consumption. The most salient example of this “**new housing poverty**” are the skilled workers and highly trained professionals in dynamically growing cities such as London or Stockholm, where housing shortage and affordability have become major issues even for middle-class households, many of whom had to move to the commuter zones outside the city proper.

¹⁸ Eurostat: Severe material deprivation rate by age and sex. [ilc_mddd11] appso. eurostat.ec.europa.eu/nui/show.do?dataset=ilc_mddd11&lang=en.

Figure 3 GDP per inhabitant, in purchasing power standard, by NUTS2 regions, 2011
(percentage of EU average; EU 27 = 100)

Source: Eurostat (code: nama_r_e2gdp), Eurostat cartography (via Wikipedia commons)



Causal links between housing and inequality have been discussed exhaustively. In addition, a growing body of literature focuses on the methodological issues of comparing the link between poverty and income inequality on a European level.¹⁹ As opposed to juxtapositional comparative attempts to explore income inequalities at a European level, a more refined examination of statistical data shows that the absolute level of economic performance is definitive in the gravity of material deprivation, including severe housing deprivation. In countries where per capita gross domestic product (GDP) (whether in PPS or in absolute terms) is higher, relative inequalities may be very similar to income inequality patterns in lower-income states; but the share of people living in severe material and housing deprivation — deep poverty, gravely unhealthy living circumstances, virtually no utilities — is significantly higher. In more practical terms, “new poverty” is more significant in higher-income countries, while deep material deprivation is more prevalent in lower-income countries (new member states).

Eurostat data for 2012 illustrate that while the at-risk-of-poverty rate before and after deducting housing costs shows a diverse image of the risk of poverty in an intranational comparison among Eastern, Northwestern and Southern European countries, the ranking of material deprivation rate shows a relatively stable pattern from Eastern to Southern to Northwestern European countries (see Figure 4 and Figure 5). At the same time, the rise of housing costs in household budgets was the sharpest regardless of European region, namely in the Netherlands, Denmark, Greece and Hungary (Eurostat 2014).

¹⁹ Comparative attempts include the application of PPS, per capita GDP or actual individual consumption, or AIC, index (which is an even more precise application of the former). However, these indexes can't really go around the limitations of other intranational indicators; they only provide information to compare member state aggregates, without providing a statistical tool to detect income inequalities on the European level and income disparities affecting housing on the local level.

Figure 4 At-risk-of-poverty rate before and after deducting housing costs, 2012 (population below 60 percent of median equalized income)

Source: Eurostat 2014 (online data codes: ilc_li02; ilc_li48)

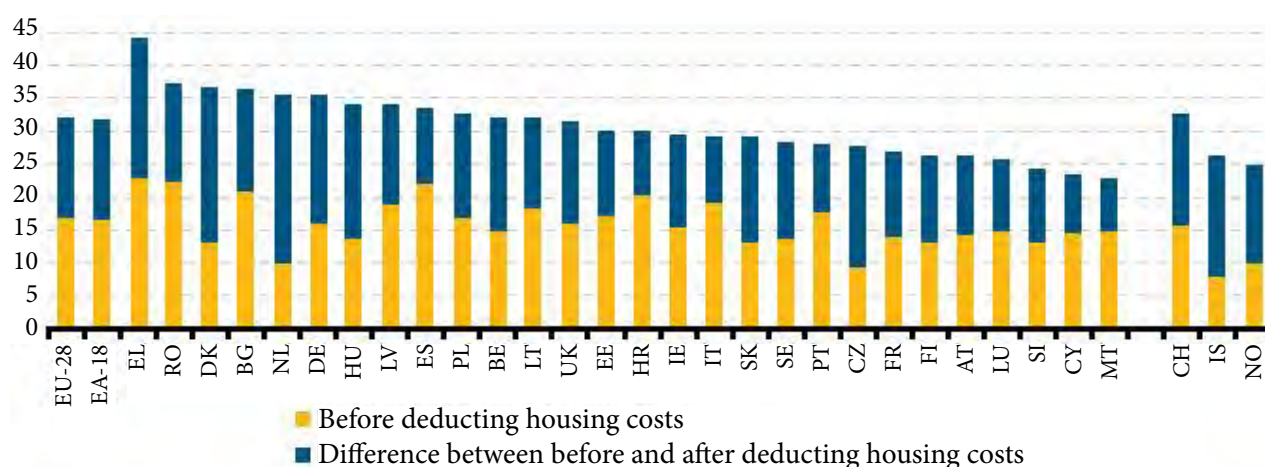
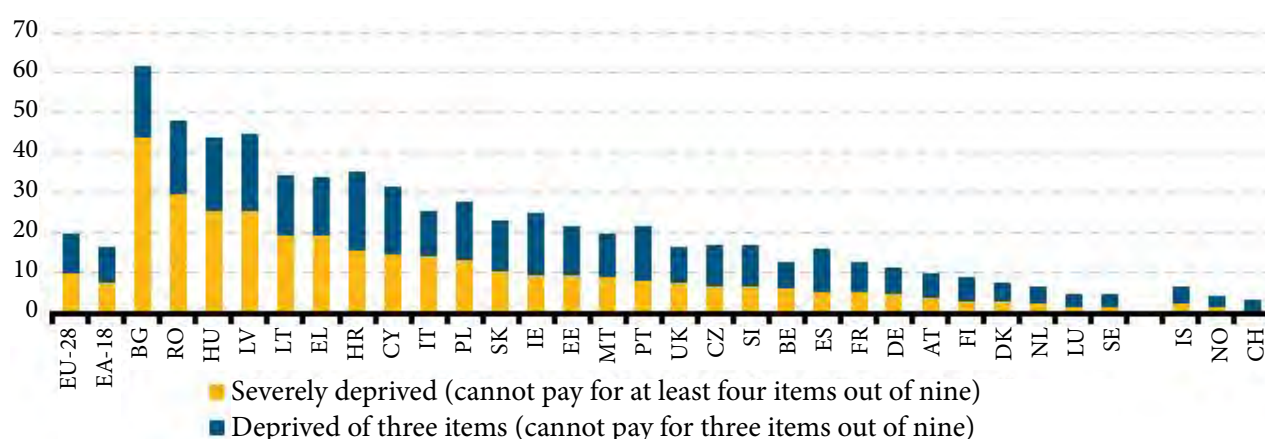


Figure 5 Material deprivation rate, percentage of people who cannot afford to pay for selected item, 2012

Source: Eurostat 2014 (online data code: ilc_sip8)



Low-income households in both lower- and higher-income countries have to develop strategies to cope with their household income and housing cost disparities. They often have no choice but to cut their housing consumption in order to maintain the remainder of their consumption patterns, but many can do this only at the price of moving away from strong economic performance areas. This could easily place them in a similar situation to that of the “classic” poor described above: away from services and job markets, and with little to no chance to reconnect to economic production and middle-class society. The core factor of housing poverty is the income inequality in both international and intranational contexts. In sum, although the effect of relative poverty must not be underestimated, the absolute level of the resources affects housing affordability much more dramatically; in fact, it aggravates relative poverty within a country.²⁰ Notably, it is especially serious for vulnerable groups, from minorities to single-parent households, migrants and the homeless. In 2014, more than half of people living in single-parent households with dependent children faced the risk of poverty and social exclusion, ranging from 77.5 percent in Bulgaria to 33.7 percent in Slovenia.²¹

Among vulnerable ethnic minorities, the Roma population has to be given special attention in housing poverty analyses. Their number in the European continent is estimated between 4 million and 12 million,

and they are the most complicated population to follow through statistical data, as many will not disclose their ethnic identity for fear of exclusion.²² What we do know from official censuses is that they face the worst overall housing conditions. A disproportionate number of Roma live in segregated areas (both urban and rural), including the large Roma populations that have migrated to Western European countries since the most recent EU enlargements.

And finally, a new factor to be considered in connection with income disparities is income instability, an aspect made all the more salient by the financial crisis, resulting in a jump of long-term unemployment in many slower-growth areas, and prompting an increase of labor and housing mobility, not all of which resulted in new jobs and affordable housing solutions.

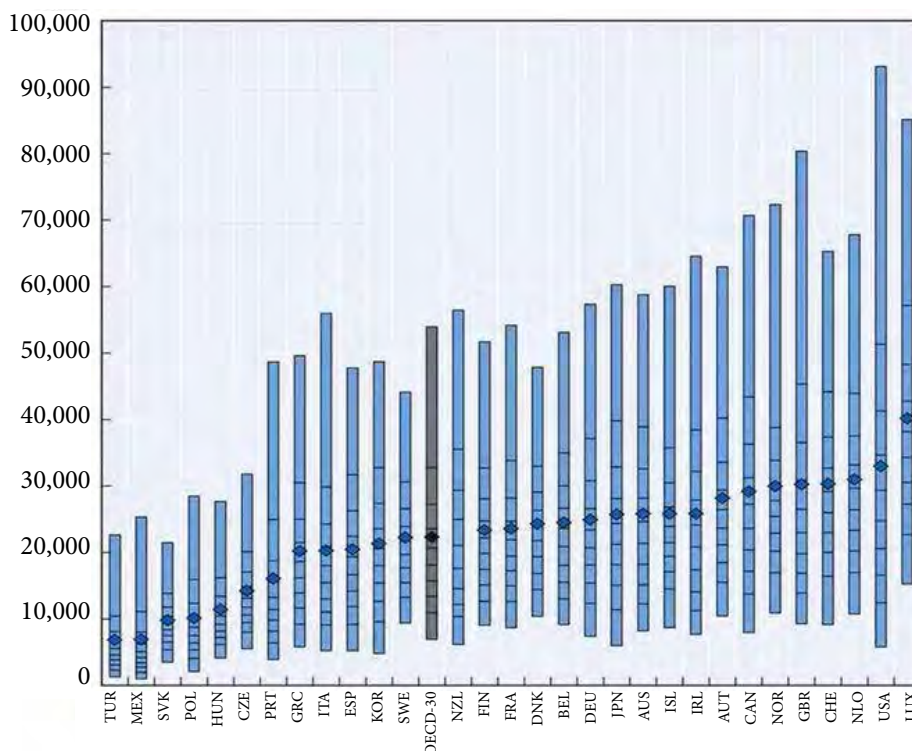
²⁰ Dewilde and Lancee, 2013.

²¹ Eurostat 2014.

²² Open Society Foundation estimates the number of Roma in Europe to be around 12 million, while people identifying themselves as Roma on national censuses add up to 4 million. Because of the extremely high level of discrimination they face to this day, the majority of the Roma population will not admit their origin, and hence the sole — albeit admittedly imperfect — method of sociologists, demographers, etc., for their identification is to consider people Roma if the majority population would consider them Roma (based on the subjective assessment of the researcher or surveyor, e.g., census official). To illustrate the extension of this discrepancy: The number of people externally identified as Roma is estimated to be around 2 million, whereas on the 2011 census 621,000 people identified themselves as Roma. This rate was 750,000 against 320,000 in Bulgaria, 750,000 against 315,000 in Hungary, and 400,000 against 400,000 in Slovakia (Bottoni, 2014).

Figure 6 Income distribution and poverty in Organisation for Economic Cooperation and Development countries (income levels across the distribution), mid-2000s (estimated in U.S. dollars at PPP rates). Note: Income decile are indicated within bars showing income level ranges in PPP. (Median per capita income in PPP is shown in each bar.)

Source: OECD iLibrary: “Income Distribution and Poverty in OECD Countries”



2.3 Demography and migration

Statistical data show that major demographic forces in Europe include the decreasing number of people per household and the boom of one-person households. The causes and consequences of demographic changes can first and foremost be influenced on the national level (pension system, social benefits, migration policy). At the same time, the rate of demographic changes within Europe is uneven not only because of the diversity of national economic, labor and welfare conditions, but also because of the migration in the EU (both among member states and to and from third countries), which has been an intensifying trend for many decades. Demographic and migration policies limited to national borders cannot counteract regional population development. As Figure 7 shows, population growth is limited to dynamic urban centers (with the obvious exception of areas where large families can still be considered traditional, like rural Ireland), while slow economy areas — the former East Germany, much of Southeast Europe, the Baltic states and the remote parts of the Iberian peninsula — have seen a massive decrease and aging of their population.

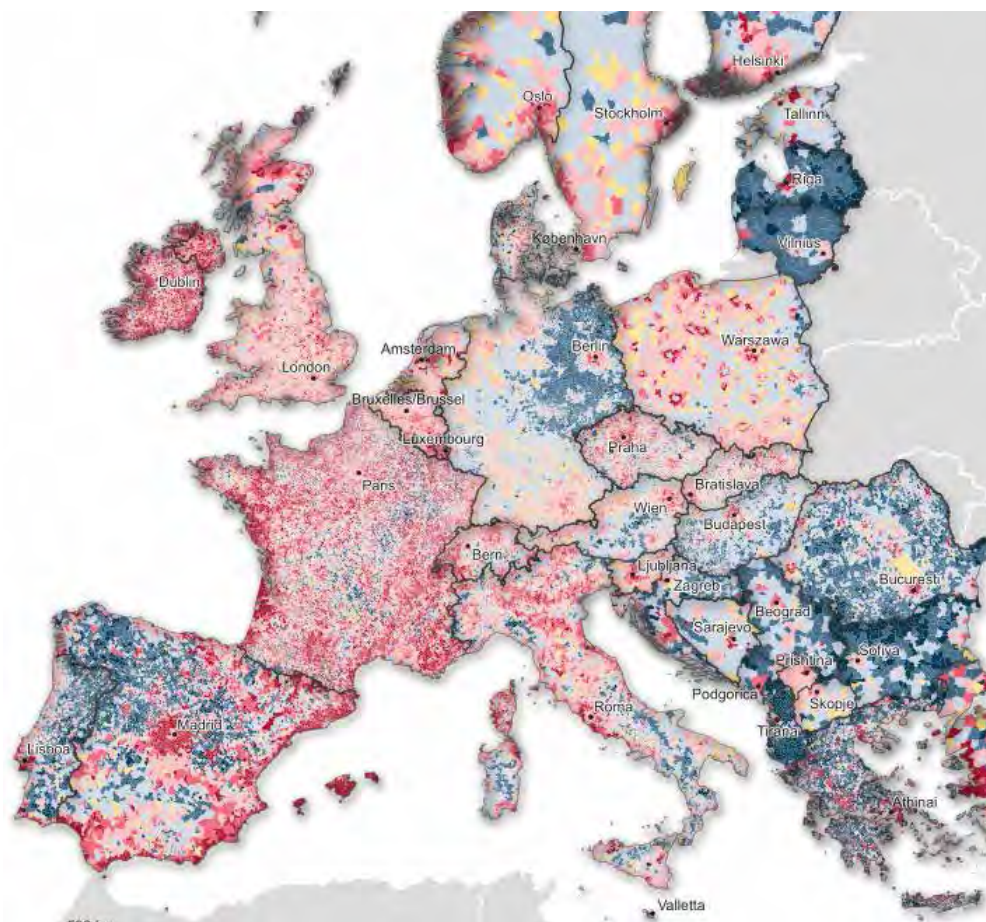
Most medium-sized cities will gradually have to flexibly adapt to a reality of slow shrinkage and outmigration, or economic and demographic stagnation. Most of the smaller urban centers nonetheless will eventually become dynamically shrinking areas because of complex economic restructuring.²³ As Thorsten Weichmann put it, “In the long run, Europe will come to consist of islands of growth in a sea of shrinkage.”²⁴ At the same time, economically dynamic urban centers were facing a massive influx of job seekers even before the intensification of the 2015 European migrant crisis. The most crucial challenge most metropolitan governments will face in the near future is the integration of newcomers in terms of housing provision, services (e.g., adequately upgrading education and health care facilities), and facilitating the match of labor market demand and supply; and many big city governments seem unprepared for this arduous task.

²³ Geroñázi et al., 2012.

²⁴ Haase et al., 2012.

Figure 7 Average annual population development in European Local Administrative Units (NUTS 3) between 2001 and 2011 census (red: intensive population growth; yellow: stagnation; dark blue: intensive depopulation)

Source: Bundesinstitut für Bau-, Stadt-, und Raumforschung, <http://www.bbsr.bund.de/>



2.4 Rigidity of the housing supply (size, location, energy)

The main reason housing policy conditions and the complex dynamics behind them must be understood is that any country's housing stock — its size, quality, accessibility and affordability — can only change over longer periods, while the factors affecting housing needs have been changing ever more rapidly since the second half of the 20th century. While the state of the economy, the number of a city's inhabitants, and the available construction and renovation technologies may change swiftly, housing systems and individual households will not be able to adapt to these often abrupt changes without public-sector involvement and an adequate and flexible policy environment.

This kind of rigidity of the housing supply can be tracked in the size composition of the stock, the type of buildings, the spatial location of the stock, the typical layout, and the technological parameter of the housing units. One of the main technical characteristics of the housing stock is its energy use (heating, cooling), for which innovative solutions have been developed but are used only in residual segments (such as passive houses). As the housing sector takes up approximately 47 percent of the energy consumption of buildings in Europe,²⁵ it provides a huge potential for energy savings and a decrease in housing costs. In spite of that, it is estimated that 0.5 to 2.5 percent of the housing stock is renovated annually, and only part of it has a direct impact on energy consumption.²⁶ Subsidy schemes have been developed in nearly every country of Europe to assist energy-efficient interventions, but most of these schemes can support only those housing

owners who have the organizational and financial skills to implement renovation measures. This effect is the strongest in those countries where the vast majority of the housing stock is in private hands.²⁷

This holds true for individual households as well. Although highly energy-efficient buildings are expensive, they guarantee low maintenance costs to their owners or renters. Low-income households have no choice but to stay in inexpensive housing units with high maintenance costs. In the lowest-income residential areas of Europe, poor families may easily find themselves trapped in a dwelling whose maintenance cost consumes a huge chunk of their monthly disposable income because of the poor quality of utility equipment, but they cannot move to better quality housing because of the double disadvantage of their low income and their inability to save because of the high housing costs. Building passive houses is commendable and is gaining popularity among the more fortunate part of Europe's population, who also make economies saving on energy. Europe's poor, on the other hand, not only live in lower-quality housing, but also often have to pay more for it. As is often the case, being poor is more expensive.²⁸

²⁵ BPIE, 2011.

²⁶ BPIE, 2011.

²⁷ There are countries, however, such as France, where the energy-efficient renovation of the social housing stock financed from EU sources got extremely high importance (BPIE, 2011). Thus most of the renovation measures have nothing to do with easing severe energy poverty.

²⁸ "It's Expensive to Be Poor," 5 September, 2015 economist.com/news/united-states/21663262-why-low-income-americans-often-have-pay-more-its-expensive-be-poor last accessed 10 September, 2015.

The housing sector

takes up approximately 47 percent of the energy consumption of buildings in Europe, providing a huge potential for energy savings and decrease in housing costs. ©Habitat for Humanity International/Steffan Hacker



3. Varieties of housing systems: Integrating factors in ‘triple imbalance’

Housing is a national responsibility, thus national economic systems, welfare programs and housing regimes determine the influence of the previously discussed factors on the housing problem in the context of the triple imbalance among households’ strategies (demand side), housing stock and costs (supply side), and public policy expectation (defining “socially acceptable” standards of housing consumption). Consequently, national housing systems inherit a housing stock determined by the earlier development (path-dependence) and functioning under different macroeconomic conditions (at varying levels of nation-state economic development). There are huge differences in relative income, and even greater in real wealth, and demographic pressures change from region to region.

Keeping in mind the different starting points, the main feature of national housing regimes can be classified into four models, based on how they manage housing provision for low-income households:

- a. No major interventions in housing; problems are left to market mechanisms (in both renting and owner occupation).
- b. Intervention primarily channeled into the private rental sector (demand- and supply-side allowances, social rental agencies).
- c. Intervention primarily channeled into owner occupation (through the tax and subsidy environment).
- d. Through a strong public rental sector: central and local support for public housing and not-for-profit housing associations.

Most welfare and housing regimes will of course not show a single approach but a mix of them with different weights. For instance, almost every European housing intervention system displays a homeownership bias, including the ones with relatively large and well-developed rental sectors (Switzerland and Germany being the classic examples). This was reinforced by the marketization and liberalization trends of the past few decades since the 1970s in most of Europe, and after the 1990s in former communist countries.

The nature of the housing problem in Europe — stemming from uneven economic growth and demographic trends, income inequalities, and the different characteristics of the local housing supplies — is diverse. Because of the dual nature of the opposing trends of dynamic urban growth versus almost universal shrinkage away from the main poles of growth, the review examines the two groups of low-income populations, who require two different approaches in order to boost European convergence in

housing conditions. By managing these two groups, we examine the structure of national welfare systems.

1. The lowest-income population: the extreme poor (living in material deprivation in the absolute sense), low-work-intensity households, those cut off from labor markets, etc. How does the welfare system manage the housing of the (relatively small) lowest-income population? What are the social and economic consequences of these targeted programs? How high is the risk that the programs are too widely targeted, and the poorest end up excluded from social housing?²⁹

2. The “new housing poor”: middle- or lower-middle-income households priced out of their homes close to highly performing urban centers, forced to move downward on the housing market to manage their increasing housing costs. Are public programs in place to help manage the triple imbalance of household income, housing aspirations and the available supply?

Policy measures in either of these approaches have their own specific tax and subsidy environments, legal conditions, and institutional structures to manage emerging conflicts related to housing. These conditions determine the behavior of housing policy actors through the structure of incentives and interests. The conflicting interests and subsequent interactions (e.g., between landlords and tenants, banks and borrowers) may cause an imbalance in the housing market as a whole. The role of housing policy is to provide mechanisms that identify and rebalance the position among household incomes, housing needs and available housing supply whenever it is perturbed by economic shocks. The typical consequence of housing policy failure — that is, the nonmanagement of the imbalance — is the expansion of the informal economy (tax evasion, etc.) and semilegal institutional solutions (usury, mismanagement of public stock), replacing transparent social and market mechanisms.

The comparison of the relative efficiency of these economic systems and welfare regimes is beyond the scope of this paper. In any case, this efficiency mainly depends on member states’ macroeconomic and social-institutional environment. The different challenges emerging from the impact of the four fundamental factors discussed earlier — economic trends, demographic trends, income inequality and housing supply — require different kinds of treatment, through a flexible combination of welfare models. It must also be taken into account that every intervention may create social tensions, which have to be assessed beforehand, and which in turn might also need to be counterbalanced.

²⁹ We must note that the poorest populations are typically homeowners — and face grave financial hardships — even in the most developed countries with relatively large rental sectors (e.g., the U.K.).

4. Innovative housing solutions

The changing macroeconomic environment of privatized and marketized housing systems is not sufficiently resilient to market shocks, as was well-illustrated by the most recent housing and financial crisis. With a vast share of Europe's public housing already privatized, a return to the pre-1970s status is impossible, so countries had to develop innovative solutions to find ways to house their poor under market conditions.³⁰ At the same time, many of these innovations prompt convergent trends among EU member states. The most influential of these solutions include, among others:

- Interventions in the planning system: inclusionary planning, support to negotiations between the developers and planning authorities.
- Innovative mortgage products to break speculative housing market actions: shared ownership, deed-restricted mortgage, dual mortgage programs.
- Nonprofit tenant cooperatives: limited equity cooperatives, community housing land trust models.
- Increase in tenure-neutral measures and encouraging the use of private housing in affordable housing provision: mortgage-to-rent programs, rent regulations, social rental agencies.
- Improvement of the public rental sector's procedures.
- Subventions of energy-efficient investments to decrease the energy consumption (e.g., ESCO model: intervention financed partly from incurring energy savings).

These innovations are integrated into the national economic and social structure, and have to be harmonized with the complex system of employment policy, urban planning, transport system, welfare system and so on. Under the right conditions, they may be able to restore the "triple imbalance": They alleviate housing-related household expenditure, realign the housing supply with economic realities, and strengthen the supply of adequate and affordable housing.

However, the different housing interventions have to have clear priorities in terms of the target group, whether they focus basically on the "new housing poor" or on the households facing serious and persistent material deprivation. In the first case, risk-sharing schemes play a crucial role, while income benefit programs (housing allowances, subsidies, etc.) are adequate in the second. Existing welfare models typically combine these two intervention types. In order to be successful, though, they have to respond to three crucial criteria:

1. Beyond restoring the balance in the housing sector, it has to be flexible enough to continue correcting and stabilizing in the long run, if necessary.

2. It has to weigh a reasonable and sustainable fiscal burden on the central or municipal budget.

3. It has to be connected to the labor market (for beneficiaries of active age), as programs aiming at alleviating housing poverty but ignoring pervasive unemployment in a weak market area invariably prove unsustainable.

European housing policy is implemented through historically and institutionally diverse national housing governance systems, although the challenges that the national housing policies are facing share several common characteristics depending on their regional and economic position within Europe. The restructuring of existing policies and institutional structures toward a more convergent "European model" will of course meet strong opposition, but if flexibly adapted to different national environments, these innovative solutions could efficiently improve housing conditions in EU member states.

³⁰ EU, 2013; Stone 2006; Czischke 2013; Milligan et al., 2009.

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Tajikistan

Working with Habitat for Humanity, many microfinance banks and financial institutions across Tajikistan have worked to lower their interest rates for housing products. Since these loans do not generate extra income, people cannot afford high rates, but still need access to good housing. ©John Wendle

II

Affordability

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Housing affordability is often thought of as being about financial models, mortgages and rental rates, but that is an incomplete picture. It is also about policies and, most importantly, people. Since 2005, 1 out of 10 people in the European Union have been spending 40 percent of their income on rent, mortgage interest, maintenance and energy.¹ For many Europeans, this level of spending is too high and puts them at risk of losing their homes.

Has European housing become too expensive to rent or own for the region's lower-income groups? With tenants not able to pay rents, and owner-occupiers defaulting on mortgage loans or unable to maintain their home, providing affordable housing that helps Europeans, regardless of class or income, have a decent place to live needs to be at the top of the region's development goals.

The aim of this chapter is to highlight measures of housing affordability in order to better understand the extent of the problem; to review trends, policies and practices over the past century; and to examine current efforts to help resolve, or at least alleviate, affordability problems for Europe's lower-income groups.

What is affordability?

Many European governments struggle to find solutions, but the problem is more complex, because experts use different definitions of housing affordability. As one leading expert writes:

Housing affordability “jumbles together in a single term a number of disparate issues: the distribution of income, the ability of households to borrow, public policies affecting housing markets, conditions affecting the supply of new or refurbished housing, and the choices that people make about how much housing to consume relative to other goods.”²

Two housing policy experts, MacLennan and Williams, provide one of the clearest definitions of affordability.

“Affordability” is concerned with securing some given standard of housing (or different standards) at a price or a rent which does not impose, in the eyes of some third party (usually government) an unreasonable burden on household incomes.”³

This definition contains the two dimensions that pinpoint the meaning of affordable or unaffordable housing: a standard of housing quality, and a standard for determining the reasonable relation of price or rent to household income.⁴ To set out a housing policy that

promotes affordable housing and enables evaluation of that policy, standards linked to these two dimensions need to be explicitly applied to policy goals.

Measures of affordability

Many factors influence housing affordability. Is enough housing available in a locality? What are people's preferences and choices? How do the economic context (income and interest rates) and government policies influence demand and supply of housing? Affordability is also influenced by the existing tenure structure in a country. Figure 1 provides a comprehensive look at Europe-wide tenure. Eastern Europe and the Baltic countries show the highest level of owners, often with 80 percent or more, while in the wealthier countries in the northwest, homeownership traditionally is lower with a market share of 70 percent or less, with Switzerland and Germany having the lowest levels of ownership, at around 50 percent.

Taking into account the different factors that influence affordability, standards can be applied to measure it, starting with housing quality. A quality standard has the function to ascertain whether a dwelling has “too” much or “too” little quality (before the affordability standard can be evaluated). An example is that in the eyes of society a house is ‘too’ big in relation to household size, or ‘too’ small.⁵ In any case, the actual housing quality can differ from the standard, either by choice or by constraints.⁶ If the difference is due to personal choice, the community will not consider higher housing costs an affordability problem. But if constraints (e.g., a lack of choice to choose a smaller dwelling) are forcing households to live in housing with too little quality, unaffordability will be a reality from the quality point of view.

Although the standard for housing quality can be the same across different definitions of housing affordability, establishing the second standard for measuring affordability — reasonable burden — can vary depending on the goal of the affordability measurement.

¹ EU-SILC: European Union Statistics on Incomes and Living Conditions. Most recent data from 2013. The official definition is different: The housing cost overburden rate is the percentage of the population living in households where the total housing costs (“net” of housing allowances) represent more than 40 percent of disposable income. ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Housing_cost_overburden_rate. It is about population/people, not households. If a household with a lot of children is overburdened, it will count as more people than a household without children.

² Quigley and Raphael, 2004: 191/2.

³ MacLennan, D. and R. Williams, p. 9, 1990.

⁴ Haffner and Heylen, 2011.

⁵ Thalmann, 2003.

⁶ Hancock, 1993.

When determining the reasonable burden, governments analyse price or rent in relation to income — the expenditure-to-income ratio.⁷ They do this by taking readily available data (rent or mortgage costs and income) to determine the financial burden of housing in comparison with household income. The ratio is often used as an admission criterion for social housing (access), as an element in the rent calculation if the rent is based on income, or as an element in the calculation of housing allowances. It is also often applied in the banking sector to evaluate the liquidity of a potential mortgagor.

The governmental and banking industry practice of looking solely at rental or mortgage cost in relation to income is a narrow view. Generally, housing expenditures are defined more broadly than the concept of rent or mortgage costs. They include expenditures for utilities, maintenance and insurance. Figure 2 shows the broader expenditure-to-income-ratio (but without mortgage repayment) for the EU countries plus Norway, Serbia, Switzerland and the Former Yugoslav Republic of Macedonia.

Using this broader definition of expenditure, the housing cost overburden becomes even more elevated for lower-income groups than the EU average of 1 in 10 (see before). Figure 3 shows the share of households whose housing costs are considered too high and who are at risk of housing affordability problems. Eurostat, the EU statistical office, sets the standard of reasonable burden at housing costs exceeding 40 percent of household income. Figure 3 shows the results by income group (Figure 3a) and by tenure status (Figure 3b).

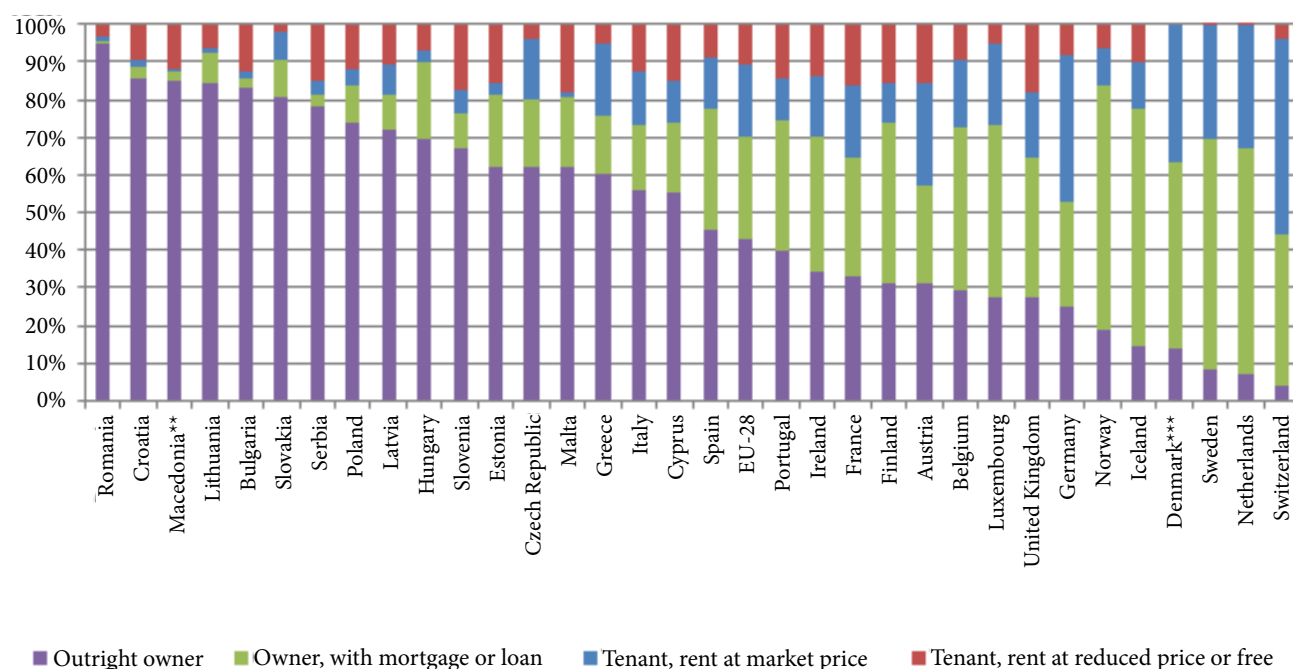
There is a risk to the expenditure-to-income standard. It does not indicate whether too much is being spent on housing in relation to other cost.⁸ For instance, a household with a higher income might be spending 50 percent of its income on housing without being considered in a situation of financial stress, while a household with a lower income might find that a ratio of 25 percent creates affordability problems.

⁷ Hulchansky, 1995. The ratio is usually a point in time instead of a longitudinal measurement (Chen, et al., 2010; Rowley, et al., 2015).

⁸ Baer 1976, Gabriel, et al., 2005; Hancock, 1993; Hulchanski, 1995; Stone, 2006.

Figure 1 Distribution of population by tenure status*

Source: EU-SILC 2013, website



*) European Union Statistics on Incomes and Living Conditions, or EU-SILC, distinguishes between rent at market price and rent at reduced price. This distinction does not in each country parallel the classification of private versus social renting.

**) The Former Yugoslav Republic of Macedonia.

***) Not significant observation for reduced-rent tenant.

One way to cope with the differences between higher- and lower-income groups can be found in Australia, where the most widely used indicator of housing affordability is called housing stress. It is defined as a binary 30:40 rule: a household is considered to be in housing stress if its housing costs (narrow definition) exceed 30 percent of income and the household is in the bottom 40 percent of the income distribution.⁹ The 30 percent figure can be considered a benchmark in line with the more recent literature.¹⁰ Lately, standards of up to 50 percent of income have been used.¹¹ This seems to indicate that standards for measuring affordable housing have shifted. The shifting standard confirms that households are paying more for housing than in the past. But such a standard leaves out of the picture the link with a quality standard: Are people also living in better-quality housing?

Housing cost burden also can be measured by defining an absolute amount that a certain household would need to pay for housing and other consumption — a minimum budget.¹²

All standards are subjective to a certain extent. They can be determined based on experience (what do households need in a certain society?), and they can be established more normatively (what should households be able to afford?) and be validated for a given type of society. They may be culturally determined and country-specific.

When applying the different measurements of housing affordability or unaffordability among Europe's lower-income groups, one can draw these conclusions: either housing expenditures are too high or incomes are too low, or it could be both.

⁹Rowley, et al., 2015; Yates 2007.

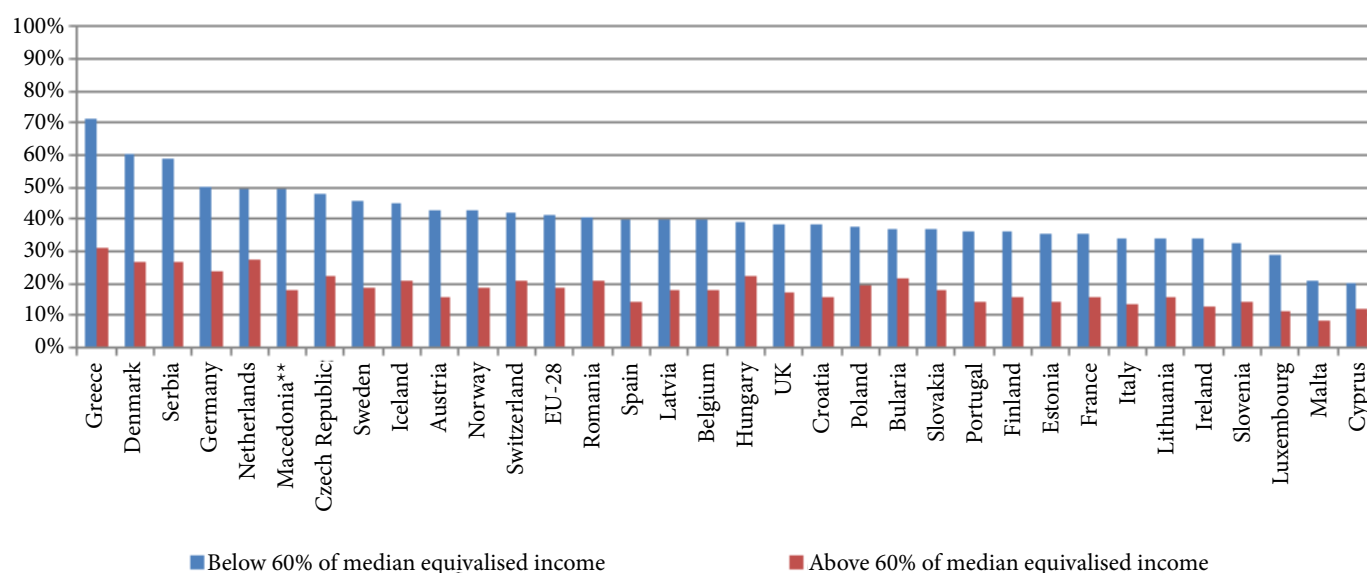
¹⁰Hulchanski, 1995.

¹¹Bramley, 2012; Chen, et al., 2010; Heylen and Haffner, 2013; Stone et al., 2011.

¹²Gabriel, et al., 2005; Heylen and Haffner, 2013; Stone, 2006; see also the contribution of Hegedüs and Horváth.

Figure 2 Share of housing costs in disposable household income, by income group*

Source: EU-SILC 2013, website



*) Weighted mean of the distribution of the share of housing costs (net of housing allowances) in disposable household income (net of housing allowances) in the respective income groups. Housing cost refers to monthly costs connected with the households' right to live in the accommodation (rent and mortgage interest payment (net of tax relief), no repayment). The costs of utilities (water, electricity, gas and heating) resulting from the actual use of the accommodation are also included. The 60 percent of median equalized income is defined as the at-risk-of-poverty threshold. It is set at 60 percent of the national median equalized disposable income after social transfers (source: Eurostat Unit F4).

**) The Former Yugoslav Republic of Macedonia.



Tajikistan

Momajon Safarova has built her house in Dushanbe with the help of a low-interest, long-term loan and professional construction planning advice. ©John Wendle

Promoting ownership in Tajikistan

In Tajikistan's risky and volatile real estate market, financial institutions are lending to potential homeowners only for short periods at interest rates above 30 percent.

"Many people here have really small incomes and cannot afford to borrow more. They also cannot afford high interest rates," said Vafo Azizmamadov, credit and development expert at Arvand Bank, a microfinance bank operating in Tajikistan since 2002.

To help resolve Tajikistan's housing crisis, Habitat for Humanity Tajikistan worked with microfinance banks such as Arvand and other financial institutions to develop loans for housing products with lower rates and longer repayment periods. To date, Habitat has been able to bring rates down by 6 percent. Since 2011, more than 18,000 families have been assisted.

"After we started cooperating with Habitat, we were able to revise our loan conditions," Azizmamadov said. *"Now we offer lower interest rates over a longer period of time. This has been very helpful for those clients who live on small incomes. Housing loans have finally become affordable."*

One satisfied client is Momajon Safarova, a 47-year-old wife and mother of four from Dushanbe. She was able to build her house with the help of a low-interest, long-term loan from Arvand, and construction planning advice from Habitat for Humanity.

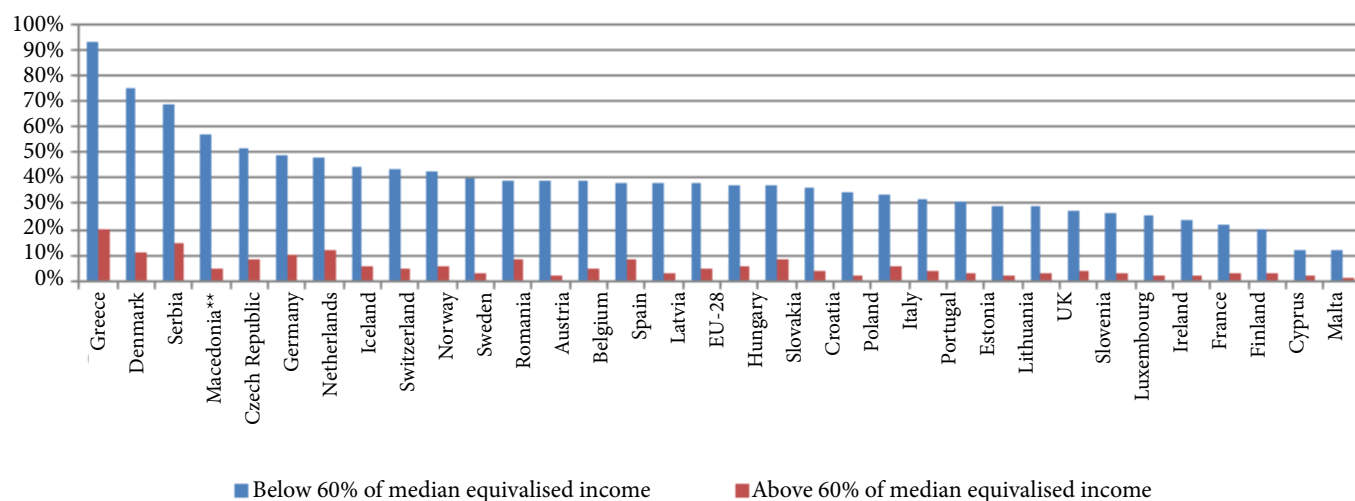
"We moved to the city from a village and didn't know much about the banking system," Momajon explained. *"Then we found out that banks provide housing loans, and we decided to go with Arvand Bank."*

The family took out their first loan: \$4,000 to be paid back over one year. The second loan, again for \$4,000, had lower interest rates, and repayment was over 18 months. Within two years, Momajon's family had bought land and built a house.

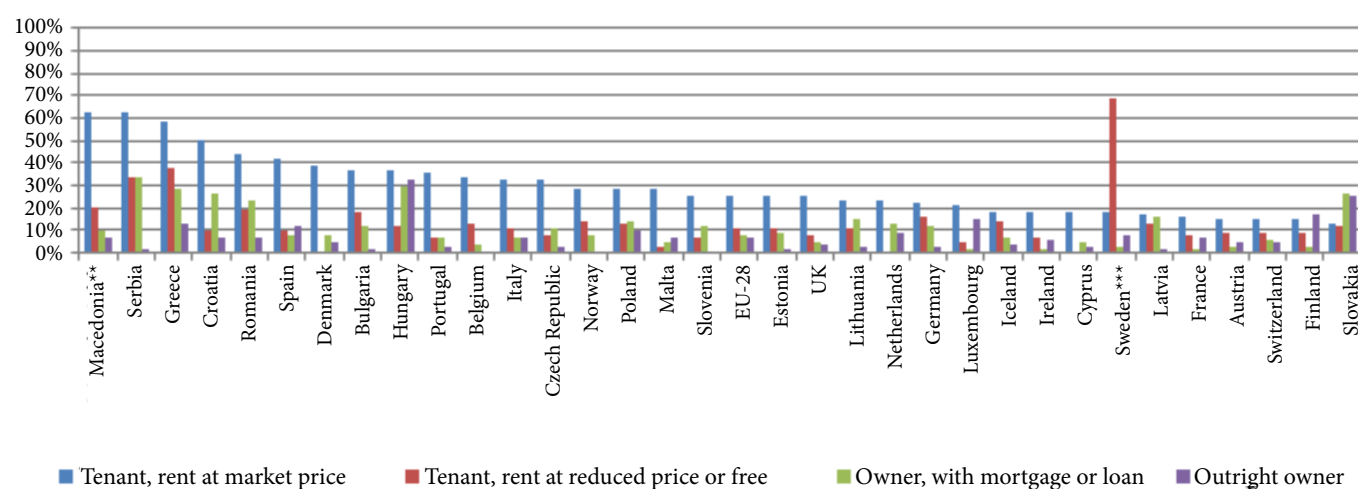
Habitat for Humanity Tajikistan is looking at ways to lower interest on housing loans even further. *"If more funds are invested in housing, there will be more competition as more banks and microfinance organizations start working in the field,"* said Farzona Yusupova, manager at Habitat for Humanity Tajikistan. *"In the long run, this will result in lower interest rates. This is a basic requirement in order to improve substandard living conditions."*

Figure 3 Housing cost overburden rate***Figure 3a By income group***

Source: EU-SILC 2013, website

**Figure 3a By tenure status***

Source: EU-SILC 2013, website



*) Percentage of people in the population of the respective breakdown level living in households where the total housing costs ("net" of housing allowances) represent more than 40 percent of disposable income (source: Eurostat Unit F4). For a definition of income group, see Figure 2; for a definition of tenure status, see Figure 1.

**) The Former Yugoslav Republic of Macedonia.

***) Low reliability of observation of reduced-rent tenant.

Shifts in policies for affordable housing

From 19th century Europe to today, different instruments have been used to make housing affordable over time.

Sponsoring private initiatives by factory owners and governments

Housing affordability policies in the early 19th century consisted mainly of low-interest loans provided by governments. These loans were provided to homeowners or social rental housing providers. Philanthropic organizations with investors who were satisfied with a return on investment of 3 percent were key providers of affordable housing.¹³

Large-scale subsidy programs

After the Second World War, many countries in Europe coped with housing shortages, and huge housing programs were developed and subsidised. In Eastern Europe, public housing played a key role in many countries, but not in all. For example, the homeownership rate in Bulgaria was high in the Communist period.¹⁴ In Western Europe, some countries mainly supported homeownership, while others developed substantial social housing organizations. Housing policy and social housing in Europe appears to be a mixed picture,¹⁵ but similar trends can be observed.

Decreasing role of grassroots organizations

In the 1960s and '70s, government policies for affordable housing took over the responsibility of grassroots organizations to some extent. This happened in Western Europe by the development of a substantial social/public-housing sector in a number of countries. In Eastern Europe, it occurred through large-scale housing provision by central and local government bodies.¹⁶ The extended welfare states phased out or overtook existing grassroots organizations. Housing became more and more part of the welfare states in many European countries.

From bricks and mortar subsidies to housing allowances

In the 1980s and '90s, a transition began in many Western European countries from brick-and-mortar subsidies to income-dependent housing allowances. These allowances were considered more efficient for below-market-priced rental housing.¹⁷

Easier access to finance: New financial products

Another trend in the last decades of the 20th century was the “marketization” of housing: a shift from government to market. In many Eastern European countries, a huge transition took place from public rental housing into homeownership. Homeownership became the preferred housing tenure in housing policies. Innovations in the mortgage market made homeownership more accessible. Products such as interest-only mortgages or subprime loans reduced initial expenses to lower levels and made

the mortgage loan accessible for groups who had been excluded before. All these products relied on a continuing increase of house prices.

The failure of the subprime mortgage market

Housing also demonstrates that financial innovations can be damaging as well as successful: the sub-prime mortgage market was encouraged in the United States — and to some extent in the U.K. — as a way of extending homeownership to poorer households. Subprime lending — predatory lending for homeownership to middle- and lower-class groups — was disastrous¹⁸ and became a major contributing factor to the global financial crisis. The downturn was set off when house prices fell starting in 2006. More and more people started defaulting on loans, and sophisticated repacking and bundling of these risky loans by private and public banks brought down much of the financial sector and millions of people.

Market rents, but also targeting in social housing

In countries with a substantial social rental sector, privatization meant pushing rents up to market prices. This was particularly fuelled by the discussion in the EU on state aid and false competition. This led, on the one hand, to social housing providers that started to operate like private-sector companies, in particular in Sweden, Netherlands¹⁹ and the U.K., and on the other hand, to social housing providers that started targeting only lower-income households, such as in the Netherlands. Despite new pleas for broader social housing as a means of creating mixed neighborhoods and sustainable cities, this broad model of social rental housing seems to be under pressure.²¹

A new role for the private rental sector

In recent decades, there is more emphasis on the private rental sector in housing policies.²¹ How to attract investors in the commercial rental market seems to be an important question for housing policy officers. For example, the U.K.'s “buy to let” arrangement (purchase to rent) is a way to attract people to invest in private rental housing. Policies for affordable solutions in the private rental sector were also developed in Germany and France. In Germany, private rental landlords can receive financial support if they rent out their dwelling for a limited time against a moderated rent to a household with a lower income.

¹³ Beekers, 2013.

¹⁴ Hegedüs, et al., 1996.

¹⁵ Kemeny, 1995.

¹⁶ Harloe, 1995.

¹⁷ Kemp, 1998, Turner and Elsinga, 2005.

¹⁸ Schwartz, 2010.

¹⁹ Elsinga and Lind, 2013.

²⁰ Braga and Palvarini, 2013; Elsinga, 2015.

²¹ Whitehead, et al., 2012; Oxley, et al., 2010; Haffner, et al., 2009; Winters, et al., 2007.

France has a somewhat similar system in which tax incentives are available for both individual and institutional private rental landlords. The difference is that the German subsidized private rental sector forms a substitute for the social rental sector (a real social rental sector is missing in Germany), whereas in France the subsidized private rental sector — also called the intermediary rental sector — comes on top of the traditional social rental sector.²²

Finally, social rental agencies originated in Belgium as a means of providing quasisocial housing for needy households facing discrimination in the housing market. Such a social agency is subsidized by the government to take care of households in need and guarantee the private landlord an adequate return on investment. This approach has been adopted more widely, including in Spain and Ireland.²³

Impact for housing affordability

There are drawbacks to this trend of marketization. Social housing providers are increasingly oriented toward market rents, and keeping rents affordable for lower-income groups is no longer self-evident. The private rental sector is encouraged, and affordability usually is not a key priority of investors in this sector. On the contrary, they often focus on short-term return on investment. Moreover, housing allowances, which often become a key instrument in housing policies, increase housing demand but not housing supply.²⁴ All in all, housing affordability lost importance in housing policies.

Finally, the lack of empirical evidence about the long-term impact of marketization on housing affordability makes it difficult to sufficiently analyse the success of this trend. Are solutions in the private rental sector more or less effective and efficient than by social housing organizations? And how is effectiveness measured?

Current trends in housing affordability policy

In recent years, housing affordability among lower-income groups is relatively absent from Europe's social and political agenda. Affordability is often one small part of regional and national social policies, frequently included in discussions and projects around social inclusion and asset-based welfare. On a more global scale, it is only addressed minimally in the “resilient cities” debate currently taking place among academics and policymakers. This debate focuses on how to prepare cities for physical, social and economic challenges.

The Housing First project, an initiative of the European Commission, is considered a successful social inclusion program for lower-income groups. In this project, affordable housing is considered a key strategy for reintegrating homeless people into society.

Asset-based welfare policies promote using individual wealth to pay for pension or welfare problems. In the case of housing, financial products such as reverse mortgages enable people to take out loans against the value of their house. Asset-based welfare concentrates on the wealth that is stored in homeownership and how this wealth can help solve pension and care problems. By pushing people to use private assets such as their home to cover pension or welfare costs, governments are putting the burden of these costs on individuals. What happens if an individual has no assets? This question gains little attention in the debate on asset-based welfare.

Additionally, as a result of the global financial crisis, governments in many countries have come under financial pressure, and substantial investments in social housing or housing allowances can no longer count on broad political support. As a result, there are substantial cuts in affordable housing provision in a number of countries.²⁵

The crisis led to recessions in many countries, and the emphasis has been on recovery of the financial sector through adequate regulation. Housing construction no longer is used as the engine for recovery of the economy.²⁶ The declining interest in housing and housing affordability is illustrated by the fact that there are hardly any Housing Ministries left. Housing became a subresponsibility of ministries of environment, economy, interior affairs or welfare.

Housing affordability is more and more seen as a local issue. Sien Winters, a Belgium expert,²⁷ described the process of devolution in the Flanders region in Belgium. Another group of experts from Scotland described the devolution process that took place there.²⁸ Hegedüs and Teller pointed out that municipalities often run housing allowance schemes in Central and Eastern European countries.²⁹

Community-led housing is a new trend in many places.³⁰ Initiatives such as cooperatives and community-land trusts keep housing affordable since they do not require a return on investment, as they are non-profit organizations. However, there is a great deal of evidence that such initiatives often struggle with existing regulations, attracting finance and overcoming the lack of professional knowledge.

²² Haffner, et al., 2009.

²³ De Decker, 2009; Hegedüs, 2014.

²⁴ Lawson, et al., 2009.

²⁵ Housing Europe, 2015.

²⁶ Whitehead and Priemus, 2014; Scanlon and Elsinga, 2014.

²⁷ Winters, 2013.

²⁸ Stephens, et al., 2015.

²⁹ Hegedüs and Teller, 2005.

³⁰ Glats, Zsófia, and Bence Komlosi, 2015; Mullins and Sacranie, 2014; Moore, 2015; Aernouts, 2015.

Richard Lang and Harold Stoeger, two Austrian academics, explored the institutional context and its impact on community-led housing initiatives in Austria to find out which of these initiatives can flourish.³¹ Moreover, the cooperation between community-led initiatives and housing associations in the U.K. was explored.³² Finally, new forms of housing microfinance provide hope for people who cannot access mainstream finance, not only in the developing world, but also in some advanced economies.³³

³¹ Lang and Stoeger, 2015.

³² Moore, 2015.

³³ Sarkar and McKee, 2004.



Bulgaria

A budget of BGN 63 million (36 million US\$) was allocated by the government to renovate multi-apartment buildings and improve their energy-efficiency in 36 cities in Bulgaria. ©Habitat for Humanity/Steffan Hacker

The good and bad news of Bulgaria's housing situation

The privatization of social housing in Bulgaria after the fall of the communist government in 1990 meant that large numbers of Bulgarians became homeowners for the first time. Unfortunately, at the same time, the government stopped all social housing construction, leading to a drastic reduction in the supply of new housing and, consequently, a steep increase in residential prices. Adding to the problem, only one bank was providing mortgages for residential purchases, resulting in high interest rates.

Today, however, individuals and developers have at their disposal financial resources from banks, cooperative societies and other legal sources, which has boosted the construction sector and made homeownership a reality for many Bulgarians. Currently, about 97 percent of homes are privately owned, and 3 percent are public or municipal property.

Although homeownership has increased, the living conditions for many Bulgarians are below European standards. Some 48 percent of Bulgarians live on the brink of poverty and the risk of social exclusion. This impoverishment of the population has resulted in the degradation or abandonment of homes, as people can no longer afford to cover the expenses. The problem is particularly acute for young families, people with low incomes and marginalized groups. With social housing in critically short supply and no plans in place to increase government subsidies or credits, these people risk even greater social exclusion.

Habitat Bulgaria, through the establishment of a national coalition for the improvement of housing conditions, has been advocating for greater allocation of funds to social housing. In 2014, the Ministry of Investment Planning piloted the first social housing scheme: 150 new units with community infrastructure, including roads, schools and hospitals. The work is financed through a social housing fund, which was established thanks to the EU program of regional development. Habitat developed criteria to select beneficiaries for the project.

Another initiative promoted by the coalition was the national program to renovate multi-apartment buildings and improve their energy efficiency in 36 cities in Bulgaria. A budget of BGN 63 million (36 million US\$) was allocated for it. Habitat Bulgaria and the coalition proposed to decentralize the program and involve municipalities in its setup and management of its funds. The coalition insisted on a clause in the housing legislation about delegating professional home maintenance to homeowners' associations and condominiums. That way, communities of homeowners can take a greater responsibility for properly maintaining and managing their houses.

Making housing affordable for all

Affordability deserves a place on Europe's political agenda, in particular when considering social inclusion and resilient cities. Policies for affordable housing cost money, but they also create added value even though this might be difficult to measure in financial terms. Creating a link between national and local affordability standards — including the link between quality and housing costs — and policies will be important to safeguard adequate and affordable housing solutions.

Smart central policies can enable adequate housing solutions at the local level. This support can consist of building regulations and other policies that remove obstacles for local initiatives or innovative subsidies to

increase affordability. Old-style brick-and-mortar subsidies seem to be politically and financially hard, but soft loans or affordable land can be of key importance for the success of bottom-up initiatives. Finally, housing allowances in central or local programs are still efficient instruments for safeguarding housing affordability.

There are solutions to Europe's housing affordability problems. They require political will both at the national and EU level to enact these changes, and innovation in the public and private sectors to implement them. Such actions will improve the life of Europe's lower-income groups by providing fair-priced, quality housing for all.



Bulgaria

Julka (with her baby Serkan, 6 months) is the daughter-in-law of Svetla Hristova, who applied for a housing microfinance loan with Habitat's help. The family will use the money to raise and repair the roof of their house. ©Terry Wilson

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Macedonia

Almost 80 percent of Macedonia's housing stock was created between 1960-1980. Built from pre-fabricated, low quality materials, the buildings were once state owned and maintained. Today, the privatized housing leaks heat and leaves tenants in the cold. Available through Habitat for Humanity, loans to home associations can now help the tenants improve their living conditions and save costs on energy bills.

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III

Sustainability

by Michelle Norris and Anna Carnegie

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Introduction

Sustainable housing was first discussed widely by policymakers and researchers in the late 1980s and initially was defined primarily in environmental terms — ensuring that housing is environmentally friendly, makes optimal use of available resources and complements existing infrastructure. This conceptualization, however, was criticized as too narrow to capture the social, economic and cultural issues that influence sustainability. Consequently, sustainable housing is now generally treated as a four-dimensional challenge that requires action to address existing inequalities, promote social cohesion and diversity, and protect the built heritage and cultural norms as well as the environment.¹

This chapter examines these debates about the meaning of sustainable housing and the key characteristics of this type of housing provision. It then explores the evidence regarding which European countries are leaders and laggards in terms of housing sustainability. The next section examines the policies most often employed to promote sustainable housing and highlights intercountry differences in a highly varied policy landscape, while identifying good practices. The closing section identifies the barriers to the effective design and implementation of sustainable housing policies.

Sustainable housing: Definitions and concepts

A commonly used early conceptualization of sustainable housing is the housing process model of U.K. sociologist Mark Bhatti,² which deems residential developments sustainable if they make optimal use of available resources, complement existing infrastructure, permit environmentally friendly uses and minimize impacts on the natural and living environment. A striking feature of this and similar conceptualizations of sustainable housing³ is their broadness even though the issue is viewed through a solely environmental lens.

In recent years, growing numbers of researchers and policymakers have criticized environmentally focused definitions of sustainable housing as too narrow to capture all of the issues that influence sustainability. These critics argue that economic, social and cultural issues also play an important role in promoting sustainability and in some cases are prerequisites for achieving environmental sustainability. In support of the latter argument, Rebecca Lai Har Chiu,⁴ an urban development professor at the University of Hong Kong, cites the example of challenging the demand for extra living space, which, although desirable, is not environmentally friendly.

Social sustainability also refers to the improvement in well-being of residents that can result from adaptations

to the built environment and social fabric of the locality.⁵ Other discussions of social sustainability concentrate on the power of social factors, such as public opinion, to impede sustainable housing development.⁶ Some experts⁷ suggest that individuals often put off making changes if the problems arising from unsustainable living do not directly affect them. Indeed, some groups actually benefit from unsustainable practices in the short term, such as those who frequently travel by airplane.⁸

Economic sustainability can be conceptualized as the equal distribution of resources across society⁹ and is relevant both to the housing affordability issues examined in Haffner and Elsinga's contribution to this volume (Chapter II) and to the persistent income and housing inequalities highlighted in Hegedüs' chapter (Chapter I). As Professor Chiu¹⁰ explains, equal distribution of housing resources also involves maximizing the choices available to potential dwellers, improving housing mobility and ensuring that the housing preferences of one particular group do not adversely affect another.

Cultural sustainability is a more recent arrival to the debate, and is often conflated with the social dimension. Where the two elements of sustainability are treated separately, the cultural aspect specifically refers to providing forms of housing that support the cultural needs of different groups¹¹ and also to the conservation of housing for its aesthetic or historical value.¹²

Holistic perspectives on sustainability are often criticized as too broad.¹³ Critics also highlight the contradictions inherent in a concept that promotes improved quality of life and housing conditions on the one hand, while on the other trying to ensure the planet is protected for future generations. These contradictions, they suggest, will inspire conflicts over what should take priority, current development or future needs.¹⁴ In response, academics such as John Robinson at the University of British Columbia¹⁵ and others¹⁶ challenge the view that economic growth and environment protection cannot go hand-in-hand, asserting that recent technological advances have led to industrial processes being significantly more energy efficient.

¹Chiu, 2004; Hay, 2005; 2006.

²Bhatti's, 1994.

³eg: ISO, 1997; Blaauw, 2001; Guinee et al, 2001; Priemus, 2005.

⁴Chiu, 2004.

⁵Pugh, 1996; Borri-Feyerabend and Buchan, 1997; Worpole, 2003.

⁶Munro, 1995.

⁷Hay, 2005.

⁸Chiu, 2004.

⁹Chiu, 2003.

¹⁰Chiu, 2004.

¹¹Hardoy et al, 1992.

¹²Thaman, 2002; Chiu, 2004.

¹³Priemus, 2005.

¹⁴Munro, 1995; Mitlin and Satterthwaite, 1996.

¹⁵Robinson, 2004.

¹⁶Sullivan and Ward, 2012.

Despite these concerns, a four-dimensional concept of housing sustainability comprising social, cultural, economic and environmental aspects, all of equal weight, is now the dominant one among researchers and policymakers. As discussions over how best to pursue environmental sustainability intensified in the 1980s and '90s, the importance of incorporating social, cultural and economic perspectives on sustainable development was brought to the fore.¹⁷ Indeed, economic and social goals had been expressly alluded to in the definition of sustainability put forward in the landmark Brundtland Report,¹⁸ which defined sustainable development as meeting “the needs of the present without compromising the ability of future generations to meet their own needs.” The interlinking of housing sustainability and these structural problems was viewed favourably by politicians and policymakers, particularly in cases where housing affordability was a pressing political concern.¹⁹ Accordingly, promoting sustainable housing now involves addressing existing inequalities, fostering social cohesion and diversity, protecting the built heritage and cultural norms, and ensuring that the environment is not compromised for future generations.

Aims of the game? Core features of sustainable housing

Researchers have identified several features that housing developments must incorporate in order to be sustainable. These relate to location (whether the property is on a brownfield site, and whether it has easy access to social, transport and commercial services), build quality (high and environmentally efficient), design (high-density and appropriate for different cultures, age groups and abilities) and affordability (affordable for low- and moderate- as well as high-income groups).

Housing can make a central contribution to environmental sustainability in Europe.²⁰ The construction sector accounts for 40 percent of total energy consumption in the EU and 36 percent of greenhouse gas emissions in Europe. Research indicates that construction and renovation standards, practices and materials, in addition to housing design, are crucial to environmental sustainability. The most important measures of this type include:

- The erection of new housing stock on brownfield (as opposed to previously undeveloped greenfield) sites.
- The promotion of mixed-use developments that include commercial, leisure and public services along with housing, thereby minimizing car dependency, or providing good public transport for the same reason.
- A focus on renovation as opposed to demolition of dwellings.

■ The use of more sustainable building materials and methods (insulation, locally sourced products, waste- and energy-minimizing technology, etc.).

■ High-quality architecture that facilitates higher residential densities and limits urban sprawl.²¹

■ The development of communities where natural habitats are conserved, promoting the “greenness” of an area while adhering to common sociocultural conceptions of sustainability.²²

In addition to enabling environmental sustainability, the provision of infrastructure such as public transport, health care and educational facilities, community centers and cultural outlets in or near housing developments contributes to achieving social, economic and cultural sustainability.²³ Convenient and inviting community and cultural outlets encourage social participation and engagement, which helps to create social capital and reduce exclusion.²⁴ Residential developments that have a welcoming and distinctive character, such as plenty of open spaces, are more conducive to positive social interaction.²⁵ Ideally, these areas should be free from crime and antisocial behaviour, and noise and air pollution should be largely absent.²⁶ Additionally, housing should be suitable to accommodate a diverse population in terms of cultural backgrounds, ages and abilities.²⁷ Mixed-tenure developments are commonly employed as a tool to promote social sustainability while preventing spatial concentrated disadvantage, aiding social mobility and providing affordable housing.²⁸

Dwellings designed to meet the needs of residents with mobility difficulties can also ensure that able-bodied residents can continue to live in their homes as they age.

Local businesses help to promote economic sustainability by creating employment opportunities and retaining money in the local economy, thus increasing growth in the immediate area.²⁹ Housing affordability is of particular importance to promoting economic sustainability in terms of poverty alleviation and improved life quality.³⁰

¹⁷ Cernea, 1993; Mitlin and Satterthwaite, 1996; Chiu, 2003; 2004.

¹⁸ World Commission on Environment and Development, 1987: 23.

¹⁹ Tosics, 2004.

²⁰ European Commission, 2013.

²¹ Williams and Dair, 2007a; Winston, 2014.

²² Chiu, 2004; Winston, 2014.

²³ Pugh, 1996; Worpole, 2003.

²⁴ Putnam, 2000; Williams and Dair, 2007b.

²⁵ Carmona et al, 2003.

²⁶ Winston, 2014.

²⁷ Hardoy et al, 1992; Chiu, 2004.

²⁸ Winston, 2014.

²⁹ Dixon and Martson, 2003.

³⁰ Sunikka, 2003; Tosics, 2004; Sunikka, 2006; Sullivan and Ward, 2012; Winston, 2014.

The extent of sustainable housing in Europe: Leaders and laggards

Comparing the extent of sustainable housing in different European countries is complex, and the results are strongly dependent on the indicators of sustainability examined. The available evidence³¹ indicates that Austria, Denmark, Sweden and Finland are European leaders in terms of sustainable housing, while Poland, Hungary, Greece and Portugal are laggards (see Table 1).

The performance of many countries in Central and Eastern Europe is depressed by poor housing quality.³² This is related to the poor initial build quality of dwellings, many of which were provided by the state under the communist system, and the inability of low-income occupants to pay for maintenance and upgrading after the mass privatization of these dwellings in the early 1990s and the withdrawal of government maintenance subsidies.³³ Since privatization, few dwellings in former communist countries have become social rentals, and this appears to have harmed perceptions of affordability, with residents in Poland, Hungary and the Czech Republic reporting that their housing costs are a burden. The use of electricity from renewable sources is also uniformly low across the former communist countries examined.³⁴

Using the housing sustainability model of Irish policy expert and academic Nessa Winston,³⁵ Latvia and Slovakia score highly in terms of overall sustainability, particularly in terms of the sustainability of food production and low greenhouse gas emissions, and many former communist countries scored well on several of the neighborhood-level indicators. For instance, Lithuania and the Czech Republic scored highly in terms of the prevalence of mixed-use housing sites.³⁶ The highest-density housing developments were recorded in Eastern Europe, which, although positive from an environmental perspective, harms social sustainability.³⁷ This may explain why the former communist countries score poorly in terms of overall neighborhood quality in Winston's³⁸ model. This composite indicator takes into account levels of crime, vandalism, noise, air and water quality, and availability of green spaces.

Some Southern European countries, such as Greece, Portugal and, to a lesser extent, Italy, also fare poorly in Winston's³⁹ analysis. This reflects the lack of some essential infrastructure (such as good quality public transport and medical facilities) and poor neighborhood quality in Southern Europe. Housing quality is also poor, particularly in Greece and Portugal. Southern European states have extremely high levels of homeownership, but until recently this was related to a "familist housing regime" (i.e., supported by inheritance, multigenerational

living arrangements and collective investment by the extended family in housing provision) rather than by investment funded by mortgages or government subsidization of housing. This familist model of housing provision has clear social benefits, but it is associated with reduced investment in the housing stock, which can result in many low-income homeowners living in poor-quality dwellings.⁴⁰ Like their counterparts in Eastern Europe, Southern European households generally view their housing costs as burdensome.⁴¹

In contrast, Austria, Denmark, Sweden and Finland, which enjoy the most sustainable housing systems according to Winston's⁴² model, performed strongly on almost every indicator. Austria and Sweden are energy efficiency leaders, generating the most electrical energy from renewable sources. Neighborhood quality in Finland, Denmark and Germany is among the highest in the EU. Furthermore, a relatively high proportion of stock in Denmark, Sweden and the Netherlands is social housing let at submarket or subsidized rents, which may explain why the incidence of burdensome housing costs is also lower in these countries.⁴³

³¹ *idem*, 2014.

³² *idem*, 2014.

³³ see also: Tosics, 2004; Sunikka, 2006; Norris and Domanski, 2009; Winston, 2014.

³⁴ *idem*, 2014.

³⁵ *idem*, 2014.

³⁶ *idem*, 2014.

³⁷ Bramley and Power, 2009; Winston, 2014.

³⁸ *idem*, 2014.

³⁹ *idem*, 2014.

⁴⁰ Norris and Winston, 2011.

⁴¹ *idem*, 2014.

⁴² *idem*, 2014.

⁴³ Scanlon et al, 2014.



Macedonia
Old (right), and newly renovated apartment buildings. ©Habitat for Humanity International

Table 1 Sustainable Housing in European Union Member States, 2007

Source: Winston (2014)

Country	Mixed-use developments (high index score)	Modal split (public transport) %	Multifamily dwellings (% of all dwellings)	Households in high-quality dwellings (%)	High-quality neighborhoods (%)	Housing costs not a burden (%)	Food production (%)	Greenhouse gas emissions sustainability rank	Electricity from renewables (% gross energy)	Mean sustainable housing score
Austria	66.3	20.9	52.1	61.3	40	40.8	12.3	11	60.7	40.6
Denmark	66.8	18	38.8	66.8	55.7	71.7	4.4	7	27	39.6
Sweden	45.7	16.1	51.9	67.6	42.7	52.7	4.3	17	51.5	38.8
Finland	50.8	15	57.6	65	60.8	57.4	10.5	3	25.9	38.4
Slovakia	50	28	51.5	67.6	26.4	29	39.5	14	16.6	35.8
Germany	46.5	14.3	53.9	67.5	48	54.1	14.5	9	14.1	35.8
Latvia	51.1	20.6	70.9	36.8	23.3	21.9	31.9	18	36.4	34.5
Spain	55	19	47.5	55.4	23	45.2	3.2	12	19.5	31.1
Czech Rep.	71.7	24.3	56.5	60	22.1	19.5	16.9	4	4.7	31.1
Lithuania	74	9.3	61.2	44.4	14.4	27.7	24.8	16	4.6	30.7
U.K.	64.4	11.5	18.7	60.5	37.8	56.8	10.8	11	4.9	30.7
Ireland	78.8	16.4	8.6	67.3	34.9	54.3	2.2	1	9.5	30.3
Italy	48.2	16.7	74.7	69.6	7.7	21.7	7.5	13	13.3	30.3
France	66	15.1	43.3	52.8	29.6	22.4	6.1	15	13	29.3
Netherlands	45.7	13.3	31.1	65	45.5	44	6.2	6	6.2	29.2
Belgium	56.4	20.9	25.1	64.3	20.9	45.1	15.2	5	3.7	28.5
Hungary	64.5	38.1	33.6	44.3	16.2	15.7	23.5	16	4.3	28.5
Portugal	67.3	14.6	22.6	50.9	15.5	32.4	6.5	16	29.6	28.4
Greece	76.3	20.1	40.6	57.2	12.2	21.3	5.9	8	6.8	27.6
Poland	59.5	16.4	63.1	47	7.6	9.3	17.4	10	3.5	26
Mean score	60.3	18.4	45.2	58.6	29.2	37.2	13.2	10.6	17.8	32.3

Policies to promote sustainable housing

Housing is not an EU competency, so regionwide action on sustainable housing is limited and has to draw on other policy areas such as energy efficiency. Until recently, most sustainable housing policy action has occurred at the national level and encompassed mandatory standards, voluntary guidance, and direct (grants, government provision of services) and indirect (tax relief) subsidies.

Although mandatory standard-setting is generally deemed a best practice, it can be difficult to achieve and costly when applied to the existing housing stock. This type of policy intervention has traditionally focused on specifying standards of construction of new dwellings (building control standards) and the regulation of building materials.⁴⁴ This has recently begun to change, and emphasis on the sustainable renovation of dwellings has increased partially in response to evidence that this is the most sustainable approach to improving housing standards and to EU policy action.⁴⁵ Public spending on the subsidization of sustainable housing has also generally increased. Trends are not uniform across Europe, however, and many countries still depend mainly on the environmental consciousness of market actors to promote sustainable housing.⁴⁶

Taxes and subsidies

In terms of the policy instruments used to promote sustainable housing, most European countries use environmental taxes that support the “polluter pays” principle (i.e., they require that the costs of environmental harm be covered by those who cause it). These taxes have proved electorally unpopular, however, and therefore are generally set at a level too low to have a meaningful impact.⁴⁷

Conversely, tax subsidies (i.e., reliefs) and grants have been introduced — although less frequently — to incentivize sustainable housing practices. In the U.K., Belgium and Luxembourg, for instance, the transaction tax (value-added tax) rate was reduced to support maintenance and upgrading of dwellings, albeit without specific regulation to help this be achieved in a sustainable fashion.⁴⁸ A number of countries have demonstrated their status as leaders by introducing subsidies that address not just the structure of dwellings, but also the wider challenges associated with housing sustainability. These include:

- Sweden’s five-year energy-efficient homes campaign, which aimed to alter public opinion and offered grants for switching to energy-efficient heating systems.⁴⁹

- The Netherlands’ Green Fund tax incentivized a variety of projects, from organic farms to conservation of the natural environment.

- Austrian tax subsidies, which aim to reduce CO₂ emissions and increasing overall efficiency while also attempting to increase market take-up of sustainable technologies.⁵⁰

- The use of subsidies is not unproblematic; they have been criticized for being too narrow in focus⁵¹ and placing a burden on government finances.⁵²

Housing renovation

Government funding of housing renovation is also commonly used to improve sustainability. In the former communist EU members, renovation projects have had very positive outcomes. Not only has there been a decrease in energy consumption through the renovation of prefabricated apartment blocks (as in the Czech Republic), but there also has been a reduction in housing unaffordability through improvements in heating systems.⁵³

Despite these positive achievements, the large-scale renovation projects required in these countries are difficult for governments to afford.⁵⁴ Even when renovation is completed, it does not always succeed in addressing all aspects of sustainability. For instance, Germany devoted enormous resources to renovating the formerly state-owned housing stock in the east after the country’s reunification in 1990. But even though the post-renovation building standards were excellent, the lack of prior consideration of the need for social and economic infrastructure, such as the availability of local amenities and employment opportunities, meant that high vacancy rates became a major problem.⁵⁵

Building control

All EU members have systems of building control and associated regulations on the standard of construction of new dwellings. In Western Europe, particularly in those countries where dwelling quality is very high, these have been highly developed for a long time. Many of the countries that joined the EU more recently — mainly Central and Eastern European countries — had to significantly reform their building regulations in order to implement EU directives.⁵⁶

⁴⁴ Sunikka, 2006.

⁴⁵ de Jonge, 2005; Klunder, 2005; Van der Flier and Thomsen, 2006; Williams and Dair, 2007a; Winston, 2010.

⁴⁶ Tosics, 2004; Sunikka, 2006.

⁴⁷ Sunikka, 2003.

⁴⁸ Sunikka, 2006.

⁴⁹ IEA, 2012.

⁵⁰ Sunikka, 2003.

⁵¹ idem, 2003.

⁵² Hasegawa, 2002.

⁵³ Novem, 2002.

⁵⁴ Sunikka, 2003; Tosics, 2004; Sunikka, 2006.

⁵⁵ Tosics, 2004.

⁵⁶ Norris and Shiels, 2004.

This development and relevant EU directives introduced since the mid-2000s have precipitated convergence in building regulations across Europe in recent years, which had the greatest impact on the energy efficiency of buildings. Many relevant developments were inspired by the Kyoto Protocol and the corresponding Action Plan on Energy Efficiency produced by the European Commission in late 2000. The latter resulted in the introduction of an EU directive on the energy performance of buildings (2002/91/EC), which required that new dwellings be highly insulated and have energy-efficient heating, cooling and lighting systems.

Building rating systems

One relevant policy mechanism that has recently become more popular is the labeling system. These systems rate various aspects of dwellings' environmental sustainability in an effort to encourage consumers to purchase or rent more sustainable housing by demonstrating value for money. Notably, the countries identified by Winston as leaders in sustainable housing⁵⁷ were also leaders in introducing and extending these arrangements. Denmark's mandatory scheme offers home purchasers the chance to assess the air and water quality of new and existing units. Finland's PromisE classification system for new and existing buildings is voluntary, but the inclusion of ratings on official procurement documentation provides a strong incentive for compliance.⁵⁸ In recent years, similar mandatory arrangements have been extended across the EU by the Energy Performance of Buildings Directive (2010/31/EU), which requires energy performance certificates to be included in all advertisements for the sale or rent of buildings.

Land use planning

Because of the importance of settlement patterns and the location of new development for sustainable housing, land use planning policy has a major impact on sustainability. Land use planning can be used to limit urban sprawl, which undermines sustainability by limiting the availability of land for future use, compromising natural habitats and promoting long-distance commuting while undermining the economic viability of public transport. A connected sustainable housing objective concerns the construction of new developments on brownfield, as opposed to greenfield, sites. To achieve these aims, the EU has called on member states to include mechanisms to address urban sprawl and greenfield development in their spatial development plans and has launched the Copernicus satellite monitoring program to provide information to policymakers. In addition, EU neighborhood regeneration funding programs emphasize the use of renovation rather than demolition. Participatory urban planning practices can help realize goals of economic and social sustainability by ensuring that a variety of voices are heard. Some European states, such as Germany, have

made community involvement an essential feature of their urban planning strategies.⁵⁹

Barriers to promoting sustainable housing

Costs for governments, households and business are a key impediment to promoting sustainable housing. In addition, policy design and implementation also create problems. In particular, unclear and contradictory policy objectives impede effective sustainable housing policy design and gaps in knowledge and regulation and governance systems impede its implementation.

Unclear and contradictory policy objectives

There is a consensus among researchers that the ambiguity of the term "sustainability" undermines efforts to promote sustainable housing by contributing to the adoption of vague policy language that lacks clear objectives.⁶⁰ Furthermore, the multifaceted nature of sustainability means that the multitude of associated policy goals can be difficult to translate into practice and may be contradictory.

A third factor of policy design that can impede the promotion of sustainable housing relates to the limits of what policy interventions can achieve. As Dutch scientist B. Hertz⁶¹ suggests, the availability of "green" infrastructure does not always lead to environmentally conscious communities.

A question of values

Decisions regarding the aspects of housing sustainability that will be prioritized in policymaking and implementation are heavily influenced by societal values.⁶² In some ways, it is unsurprising that social and economic concerns hold more attraction for policymakers and citizens than issues related to energy efficiency and recycling. There is understandable reluctance among policymakers, businesses and householders to opt for environmentally friendly adaptations that are costly to implement. Even if these improvements reduce operating costs in the long term, many households remain hesitant as they anticipate moving and therefore not benefiting.⁶³ This also is reflected in the opinions of construction professionals, who often perceive the costs of these adaptations to be high, sometimes without thoroughly investigating their actual value.⁶⁴

⁵⁷ Winston, 2014.

⁵⁸ Huovila et al, 2002; Sunikka, 2006.

⁵⁹ European Commission, 2010.

⁶⁰ Munro, 1995; Priemus, 2005; Williams and Dair, 2007a.

⁶¹ Hertz, 1996.

⁶² Munro, 1995; Hay 2005; 2006.

⁶³ Murakami et al, 2002; Williams and Dair, 2007a.

⁶⁴ Williams and Dair, 2007a.



Bosnia and Herzegovina

Apartment building renovation is underway in Bonivici, Bosnia. The tenants took a loan for an energy-efficiency upgrade, replacing the roof and entrance, and insulating the walls. ©Terry Wilson

Investing in Residential Energy Efficiency

In Central and Eastern Europe, much of the housing stock dates back to 1960 and 1970, when energy prices were not a concern. Today, these countries face a dilemma either to subsidize utilities or to allow homeowners to default on the arrears with the market rate prices.

Across the region, governments choose the former. However, this model is hard to maintain due to the lack of public funds in the time of economic downturn. Subsidies prevent reforms and development in other areas too. If the funds are invested elsewhere, it creates jobs and more economic opportunities.

Large-scale investment in energy efficiency of multi-apartment buildings is an effective way to reduce fuel poverty and create savings for people on small incomes. With energy upgrades, monthly payments for families can go down up to 22%, according to the white paper on energy and CO₂ savings in the EU. Habitat for Humanity has been developing energy-efficiency programs in Macedonia, Bosnia and Armenia. Its aim is to demonstrate that residents can undertake energy-saving renovations in their homes.

One of the places where the program was kicked off is Teshanj, a picturesque and affluent town in the Tuzla canton of Bosnia and Herzegovina.

Like-minded enthusiasts, unhappy with their building's appearance, insulation, and leaking roof, got together with the entrepreneurial president of the tenant's association, Shefket Turalich. They got a loan from the bank and help from both the municipality and the Tuzla canton governments. The result—an incredible change in their lives.

"Before, I wore a coat in my flat", says Abzia Hasanovich, one of the tenants. *"Now I wear short sleeves all day long,"* interrupts her neighbor Munevera Sofich. *"We have also increased the value of our flats,"* says Dusanka Cheharich. They have already started saving on electricity bills, paying 20% less than a year earlier. Their next step is to save even more money by installing individual calorimeters in the homes, so they can control the heat in their flats.

They all agree that Habitat for Humanity has started something unique in Bosnia. Thanks to the energy efficiency information seminars, residents are starting to think about taking concrete steps to improve their homes, save money, even earn money by selling back unused energy to the utility.

Gaps in knowledge

Effective implementation of sustainable housing policies is also impeded by the lack of technical knowledge among construction professionals and tradespeople. U.K. academics Katie Williams and Carol Dair⁶⁵ studied barriers to sustainable development in the U.K. and found a lack of awareness of sustainable construction and maintenance methods among industry professionals, which results in ignoring the potential for incorporating sustainability measures into new developments.

Regulation and governance

The lowly position of sustainable housing objectives (particularly those related to environmental efficiency) in the perception of the public and policymakers has resulted in weaknesses in policy, regulatory and governance frameworks relevant to sustainable housing.

For instance, the lack of comprehensive regulation on sustainable housing standards has been criticized in many European countries. When regulators and other officials actively support unsustainable measures, further problems arise, such as allowing development to go ahead on greenfield sites.⁶⁶ In some instances, outdated legislation or policy has prevented regulators from enforcing the best and most up-to-date practice. A disconnect between different ministries or levels of government responsible for sustainable housing also has proved problematic in many countries. There is a need to integrate housing, land use planning and other policies (e.g., public transport) to achieve a significant

improvement in housing sustainability.⁶⁷ This approach was adopted in the Netherlands, where a number of different planning philosophies were used to overcome issues of urban sprawl.⁶⁸ This type of comprehensive reform requires a high level of political willingness, which can be difficult given the low status of environmental sustainability in policy priorities.⁶⁹

Research notes that a lack of compliance with environmental standards in Ireland's urban housing projects was related to inadequate resources to enforce legislation.⁷⁰ This is also cited as a problem in the U.K., where, despite clear and enforceable sanctions for failing to comply with social and economic aspects of sustainability (such as the provision of social and affordable housing), there is less clarity when it comes to energy efficiency and use of renewable materials.⁷¹ When adherence to sustainable standards is voluntary, as is the case in many European countries,⁷² implementation is likely to be even weaker, because housing developers focus solely on meeting mandatory requirements. Some countries that are policy leaders in sustainable housing manage to circumvent this problem by providing financial incentives to encourage implementation of voluntary standards.⁷³

⁶⁵ Williams and Dair, 2007a.

⁶⁶ Williams and Dair, 2007a; Winston, 2010.

⁶⁷ Winston, 2010.

⁶⁸ Tosics, 2004.

⁶⁹ Sunikka, 2003; Tosics, 2004; Sunikka, 2006; Williams and Dair, 2007a.

⁷⁰ Winston, 2010.

⁷¹ Williams and Dair, 2007a.

⁷² Sunikka, 2006.

⁷³ Belazzi and Lipp, 2002; Huovila et al, 2002.

A recent Habitat for Humanity pilot (**REELIH - Residential Energy Efficiency for Low Income Households**) run with USAID in Tuzla Canton and Municipalities shows that small investments can lead to big changes. Habitat provided expertise and the local state provided subsidies of up to 50 percent of the cost of energy efficiency upgrades.

The pilot has multiple benefits:

- Direct savings on the heating bills, up to 40 percent
- Reduced greenhouse gas emissions
- Safer, healthier homes
- Real estate value increase
- Improved civic pride



Meeting the four-dimensional challenge

The definition of sustainable housing has changed since the term was first used by researchers and policymakers in the late 1980s. Defined initially in environmental terms, the dominant opinion now is that achieving sustainable housing is a four-dimensional challenge that requires action to address inequalities, promote social cohesion and diversity, protect the built heritage and cultural norms, and ensure that the environment is not compromised for future generations.

In order to be sustainable, housing developments should incorporate a number of key elements. These relate to location, build quality, design and affordability for different income groups.

Challenges associated with implementing the multifaceted definition of housing sustainability and dealing with conflicts among its different elements are very difficult to resolve.⁷⁴ Although EU policy interventions have helped to promote better sustainable housing standards in member states and have had a particularly large impact on countries where sustainable housing is a low priority among policymakers, the wide diversity among countries' standards indicates that locally tailored policy solutions are more appropriate than a one-size-fits-all approach.

It is also important to acknowledge that these intercountry variations in housing sustainability not only are related to sustainable housing policy but also reflect long-term legacies of different settlement patterns, levels of economic development, residential construction traditions and the housing policy regimes outlined by József Hegedüs in his contribution to this volume. Changes in these structural influences will have implications for policymakers' ability to improve housing sustainability. For instance, as mentioned in the affordability chapter of this report, the legacy of privatization in former communist countries has created significant challenges for improving both housing affordability and quality, which are reinforced by growing income inequality in most countries. Similarly, the additional dwellings required in the dynamically growing urban areas highlighted in Hegedüs' chapter are difficult to deliver without contributing to urban sprawl.⁷⁵

Despite the challenges throughout the region, and the problematic legacies of housing quality in the former communist countries of Central and Eastern Europe, adapting a multifaceted understanding of housing sustainability and defining policies and practices based upon it will, no doubt, improve the quality of life for millions of Europeans.

⁷⁴ Sunikka, 2006; Williams and Dair, 2007a.

⁷⁵ Sunikka, 2006; Sullivan and Ward, 2012.

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Germany

FrauenWohnen is a cooperative women's housing project in Munich, one of Germany's most expensive and dense housing markets. Based on the municipal Munich Modell, an ownership-oriented social housing subsidy program, it allows affluent women and those with moderate or low incomes to live in a highly community-driven project ©FrauenWohnen e.G.



IV

Livability

by Christiane Droste

UrbanPlus, Berlin

From city branding to livable communities

Urban livability in the 21st century has been taken over by the data-driven global cities' ranking game. The purpose of these rankings is to promote the affluent inhabitants and successful economic actors, and to attract future investors in business, building and marketing housing. "Livability", reduced to this level, becomes mainly a matter of city branding. The Economist Intelligence Unit's Global Livability Ranking or Mercer's Quality of Living city index are the most prominent examples of these rankings.

The livability concept in these rankings refers to the cities' overall attraction, growth, competitiveness and resilience. The reality of moderate- and low or no-income citizens and their equal access to decent housing, social resources and opportunities for income generation fail to register on these rankings.

The aim of this chapter is to clarify the many definitions of livability, how it is incorporated into European policy, and the current research of nongovernmental housing organizations advocating for affordable housing. The chapter goes on to explore the main threats to Europe's middle and low-income neighborhoods. And, finally, it argues that community-driven social housing programs can be a viable solution for building affordable homes for low-income groups and improve livability for all. Concrete examples are provided from different European countries of community-driven housing and land use to show the positive impact these programs have had on low-income communities.

Livability: Who defines it and for whom?

Concepts and policies addressing the livability of cities aim to improve the well-being of urban residents. This seems obvious, even though the concept and the underlying definitions of livability are based upon a variety of often or at least partly contradicting assumptions and — at least as often, conflicting interests. It is important to note that livability is a concept applied primarily to urban areas.

A widely used working definition is provided by an American nongovernmental organization called Partners for Liveable Communities. It states that "livability is the sum of the factors (...), including the built and natural environment, economic prosperity, social stability and equity, educational opportunity, and cultural entertainment and recreational possibilities." (liveable.org) It can be difficult to understand the difference between livability and sustainability as they share similar characteristics. The distinction, though, is that sustainability addresses direct and indirect long-term impacts of planning, whereas livability refers to

sustainability aspects and other quality of life criteria that directly affect a community's life today.

The need for research linking the livability concept to well-being

Although there is a reasonable body of economy-driven reports on livability, fewer studies are dealing with well-being in cities and neighborhoods - or even happiness.¹

Research examined different "objective" livability indicators at the neighborhood level — public health, transport facilities, job opportunities, culture and leisure across various social groups — while studies of qualitative subjective satisfaction data remain scarce. But individual perception of usability, subjective values and trust², along with the subjectivity of affordability, are of key interest when it comes to livability in socially mixed or moderate- and low-income communities.

These social aspects of livability are more likely to be discussed in social and neighborhood studies related to urban renewal practices, primarily in disadvantaged neighborhoods (e.g. social housing). A longitudinal study in Ireland³ showed the need to distinguish between the category of quality of life of the "disadvantage", which is household-based and livability as a category related to the community or close-knit neighborhood. In drawing conclusions, it used well-being issues as a basis for assessing policy and livability outcomes at the community level.

During the URBAN 21 conference in Berlin in 2000, the World Commission's global agenda for 21st century urbanization was presented. Livability is examined as a more integrated concept. Sir Peter Hall, who was one of the most influential town planners in Europe and co-author of the report, strongly linked the livability concept to the need for more future-oriented sustainable cities and neighborhoods.⁴ However, in the conceptual contest, currently taking place in the academic and policy arena of housing, of resilient cities, smart cities, inclusive, healthy or child-friendly cities⁵ (the latter having high priority on the EU agenda to fight poverty), safe and green cities; and, not least, slow cities all relate to livability, even though it remains to be seen how far these concepts will improve both livability and social equality in urban life.

¹ Montgomery 2013

² Heukamp and Arino 2011; Okulicz-Kozaryn, 2012; Senlier et al, 2009

³ Norris, 2014

⁴ Hall and Pfeiffer, 2000

⁵ Potz/Sept, 2013

The concepts of cultural capital and creativity⁶ or “Fair Shared Cities”⁷ which connect gender equality to livability, are also part of this contest, and deserve equal consideration.

Learning from good and failed practices

Why explore all this? First of all, because it is important to realize that despite the disillusioning effects of the 2008 financial crisis on labor and housing markets⁸ and despite different patterns and degrees of implementation, Europe has generally developed an enormous body of knowledge and practical experience on how to safeguard the livability of its cities and neighborhoods.

Policies and programs were initiated on the national level and in the context of urban and neighborhood renewal programmes, such as the New Deal for Communities in the UK, the Politique de La Ville in France, the Big City Policies in the Netherlands, and the Neighborhood Contract Programmes in Belgium and Italy. A joint feature was multilevel partnerships among the local state, social and housing service providers and citizens, who, however, were still too often seen as receivers of benefits from short-lived policies.

These experiences were shared, though did not always include ways to transfer lessons learned through EU research and the more practice-oriented urban development knowledge transfer and innovation development programs such as EuroCities, Urbact I,

Urbact II + II and InterReg III initiatives. The EU 2020 innovation and research programs — Horizon 2020, a financial instrument of the EC to create new growth and jobs in Europe — will, hopefully, offer ways to share best practices. But if states, municipalities and social housing providers fail to recognize the knowledge and experience of local nongovernmental organizations and use and embed the existing knowledge and networks of these potential partners in their everyday practice, innovation will lack the input of the people and organizations most well placed to understand local contexts.

Cutting-edge practice

Organizations advocating for the needs of those who are adequately served by neither the housing market nor the many forms of social services (and social housing) existing in Europe⁹ have taken a lead in developing socially inclusive models of housing and land use throughout Europe: Habitat for Humanity, Trias Foundation and Mietshaus-Syndikat in Germany, Rowntree-Foundation in the UK, and the Swiss Edith Maryon Foundation, to name a few. These are often intertwined with practices of social entrepreneurship, and increasingly with do-it-yourself and new forms of economic initiatives (share-economies, urban gardening, and urban farming).

⁶ Stevenson, 2014

⁷ Roberts/Sanchez de la Madariaga, 2013

⁸ Hegedüs and Horváth earlier in this publication

⁹ Scanlon et al, 2014



WiLma

Entrance facade of WiLma, a Berlin Mietshäuser Syndikat project that converted a German Democratic Republic (GDR) panel building into a cross-generational housing project with various forms of living and shared spaces. Urban gardening (above) forms part of the project. ©UrbanPlus

Livability is, of course, an issue for organizations advocating for affordable housing and improved livability for the poor and homeless. Habitat for Humanity considers adequate and affordable housing a must for breaking the cycles of poverty and creating livable communities. Stable homes are seen as essential for entering a cycle of health, security, education and employment.¹⁰

Since the early 1990s, the Habitat International Coalition has criticized European governments for not ensuring adequate housing conditions for all its citizens. As a solution, it requests that the EU and national governments support community-based efforts to improve housing and alleviate poverty in a participatory manner. Concretely, they advocate for expanding support to cooperatives and grassroots organizations as local drivers of affordable housing.¹¹ International Network for Urban Research and Action points out that widespread marginalization, homelessness and unemployment require action that is rooted in an approach, linking housing, employment and environmental issues — notably in impoverished neighborhoods.

The European Federation of National Organisations Working with the Homeless (FEANTSA) looks at member states' housing policies and the delivery of adequate housing for vulnerable groups. Referring to both housing market analysis and current EU-SILC data, the federation stresses that increasing house prices or rents only seemingly promotes economic growth in the recovery from the housing market crisis, but has severe implications for affordability and access to housing for low-income groups. Furthermore, FEANTSA stresses the need for new priorities in European social housing policies to mitigate poverty and social exclusion.

Finally, debating the concepts of livability, it is vital to look in detail at statements such as “a rundown neighborhood now is being transformed into a hotspot for innovation” as examples for increasing livability.¹² Such interpretation indicates the often very neo-liberal background of livability concepts, in this case pricing low- and middle-income families out of their neighborhoods.

Neighborhood dynamics impact on moderate and low-income communities

Livability is always specific to place, population and opportunities, taking into account the variety of milieus and social groups in urban neighborhoods. But what is a neighborhood?

Different approaches to defining “neighborhood”

Planners and architects usually describe a neighborhood by its urban, architectural and public space quality and

functions. The housing providers' definition would probably depend on the dimension, structure and socioeconomic status, while welfare service and social infrastructure providers would look at the socio-spatial and cultural entity (or divisions). People would rather think about the immediate area near their home or street. Their mental maps would be based upon the public space they use in everyday life, their spatial routines, social networks and physical boundaries such as big streets or the points within walking distance. Such mental maps might not match the view of the professionals and investors, nor anyone living outside of it. The perception of a neighborhood and its dimension also may vary depending on social status, cultural or ethnic background, lifestyle, gender, age and religious practice. And it depends on the side of livability on which people are living.

Researchers usually agree that both physical and social aspects are relevant when studying within neighborhood. Physical aspects include design and quality, environmental characteristics and location. Social aspects include infrastructure and welfare supply, demographic characteristics, social interaction, image, local institutional patterns and governance. Physical and social aspects need to be seen as overlapping and interdependent.¹³

Deprived (or disadvantaged) neighborhoods have, over the past decade, increasingly been depicted as spaces of difference, where social relations (and behaviour) have at the same time elements of internal cohesiveness, — despite diversity and even conflict — and lower educational status and economic activity than in other parts of the city.¹⁴

Different perspectives on neighborhood change

Neighborhoods may have clear geographical boundaries, but they are never static. Economic, social and cultural dynamics constantly transform them. Ruth Lupton and Anne Power, researchers at the London School of Economics, explored the impact of neighborhood change on the perception of livability. The researchers noted conflicting interpretations of neighborhood change. For example, owners and investors may understand gentrification as an “improvement” of livability while the poorer residents may object to being priced out of their homes.

They highlighted the complexity of measuring and understanding neighborhood change. According to them, there are relative and absolute changes that take place.

¹⁰ HfH, 2003, 2014

¹¹ HIC 1992, 2005

¹² WEF, 2014

¹³ Massey 1994

¹⁴ CRECSR, 2011

Relative change is measured in relation to other neighborhoods. Absolute improvements may have a more direct impact on people's lives. In their opinion, both need to be considered. Additionally, internal neighborhood causalities (population composition in terms of ethnicity, social status/capital, age, access to infrastructure, employment status or quality of building and public space), and the conditions of the population at the "glocal" level (labour market, population growth or decrease, etc.) are other indicators that need to be measured.

This approach, if it systematically includes gender and diversity as evaluation criteria, may qualify further research and policy evaluation, and subsequently the development of local policies and livability-based neighborhood action.

How to measure and prepare for livability-based neighborhoods?

Since 2004, the EU conducts perception studies on the quality of life in a number of European cities, which provide an opportunity to measure and compare aspects such as mobility and develop subsequent policies. An example, on the European level, is the Urban Audit that provides comparable data for 321 cities in the 28 EU member states, along with 10 cities in Norway and Switzerland. A smaller set of data is available for 25 cities in Turkey. Its manifold indicators are collected every three years. As any intervention needs a solid and localized knowledge basis, these measurements are carried out in a participative manner, to motivate cities and neighborhoods to improve livability.¹⁵

Such perception studies, like the "Socially Integrative City Monitoring" in Berlin, should: provide continually updated, publicly available results to be used when developing policy and actions;¹⁶ be harmonized among different public departments' approaches; and should include citizen programs and (social) housing actors. However, these instruments need constant evaluation, as critics fear that they are too sluggish to capture the increasing dynamics of change in disadvantaged neighborhoods.

Proactive action in Europe to ensure changing neighborhoods benefit all

Across all larger European cities, data show that the gap between poverty and affluence, dynamic and poor areas, centre and periphery — spatial and social — is growing.¹⁷ While resilience is documented in many neighborhoods, the risk of exclusion prevails elsewhere, often despite decades of governmental policies for improvement.

In "Cities of Tomorrow",¹⁸ the EU characterized three major city typologies, which serve as background for reflecting neighborhood change.

The first type consists of economically dynamic larger Western European cities and regions with strong population growth, resulting from their polarized attraction — migration of the highly qualified and the poor. On the level of livability and neighborhood, the most challenging issues are to carefully plan for city densification and adequate integration. The need is for added provisions of housing, especially for those on the lower end of the income scale, without sacrificing those livability elements that have been achieved for large parts of the population over the past few decades, e.g. in social housing and integrative programs.

The second type is those small and medium-sized cities throughout Europe with a relatively sound economic base and stable or only gradually shrinking populations. In terms of neighborhood change, their task will be to create a flexible provision of welfare services, sociocultural infrastructure, mobility and housing, keeping them attractive liveable centers. Urban and social planning needs to take into account both increasing and declining populations, and the increasingly diverse socioeconomic composition.

The third type is made up of the shrinking cities, especially in the Central, Eastern and Southern EU, and in some peripheral Western areas, facing both demographic and economic decline. In terms of neighborhood change, their challenges are manifold. Livability becomes endangered, where first empty houses and later dispersed empty plots dominate,¹⁹ and the declining infrastructure options of state, economy and civil society are letting livability collapse.

This typology of city problems is by no means comprehensive. Large European regions have their places between the typologies and as extra cases. The rural periphery and the Alpine mountain region are torn between declining internal opportunities, long-distance commuting, and a growing tourism that is livable only for some.²⁰

¹⁵ EC 2011

¹⁶ Sozialstrukturatlas, <https://www.gesundheitliche-chancengleichheit.de/handlungsorientierter-sozialstrukturatlas-berlin-2013/>

¹⁷ Friedrich and Galster 2013, Scanlon et al 2014

¹⁸ EU 2011

¹⁹ Oswalt 2006; Pallagst 2013

²⁰ Dollinger, 2007; Bätzig 2015

Urban poverty and spatial segregation are key factors in the development of each of the described typologies of urban and neighborhood development. In terms of livability, decreasing poverty and improving spatial equilibrium demand a diversity of solutions with housing that is more than a place to live and, above all, shared space for social and economic self-organization that can become the breeding ground for a substitution of decreasing welfare support.

Social housing sector in trouble

Policy and action need to react to the many faces of poverty in European cities. Beyond the traditional low-income groups, a new group of vulnerable people has emerged over the past decade: highly trained unemployed academics and intellectuals and low-income independent workers. Apart from this group, which because of its social capital has a higher potential for self-organization, all low-income groups need to be not only accommodated, but also integrated. This integration is not only to their individual benefit, but also to the benefit of the receiving cities, in the context of demographic change and changing labour markets.

All these elements of a problem-driven development that is quasi- “glocally” induced strongly affect the livability for all, but especially for the lower income groups and the poor, who cannot easily turn their back to the widespread uncertainty that exists in the social housing sector.²¹ Unsafe parks, homelessness, unaffordable homes, and a general decline in opportunities for self-management are characteristics of the troubled social housing sector.

Neither traditional social housing nor community-driven or self-organized housing forms alone can provide a one-size-fits-all solution to the challenges in the social housing sector. There is evidence, though, that community-driven social housing programs have the potential to provide new opportunities to create new homes for low-income groups and to improve livability for them as defined in this article.

²¹ Haffner/Elsinga, Scanlon et al, 2014; Lévy-Vroelant/Reinprecht 2014

Safe housing for the Roma community

Almost 90 percent of Roma families live in severe poverty according to a 2011 study financed by the European Commission. Roma homes often are made of mud and straw. They have no access to running water, sewer and gas, endangering the health of parents and children. Moreover, many Roma families live in overcrowded conditions with three or more people sharing one room.

“The housing problems faced by the Roma can be solved only if there is a national strategy for poverty reduction with a component of decent housing. Nongovernmental organizations, public institutions and the private sector must work together to break the circle of poverty, and implement integrated programs to provide access to decent housing, education and health,” explains Mario DeMezzo, National Director, Habitat for Humanity Romania.

Habitat for Humanity Romania works along with international and local corporate volunteers to provide vulnerable groups with a simple, decent and affordable house. One of their most important

programs helped over 200 Roma families to rehabilitate and refurbish their homes. The At Home in Your Community program provided building technical assistance to 10 communities with help from construction specialists.

The Bulgarian Ministry of Investment Planning proposed the construction of 150 new social housing units together with infrastructure projects such as roads, schools and hospitals. The regenerated area aims to provide inclusive housing for Roma and non-Roma residents with an emphasis on eliminating segregation. Construction is financed by a special social housing fund, supported by the EU regional development program. Habitat Bulgaria is helping by developing criteria and parameters to select beneficiaries of the project. The need is greater than the supply. If the pilot projects succeed, Habitat Bulgaria will work with the government to develop a long-term social housing project for socially disadvantaged families.

Community-driven housing is more than a place to live

This section will focus on different examples of community and housing self-organization that improve livability in the context of space and society. This is a debate referring to current urban practices, becoming apparent across Europe.²² On the one hand, these new approaches to livable communities and neighborhoods are a result of emerging urban opportunities. Marietta Haffner and Marja Elsinga²³ consider a “revival” of self-organized housing in the chapter on affordability. But on the other hand, they are a result of the continuing retreat of the welfare state (social housing, child care and health care, deregulation of employment) and market failure (housing provision and unemployment) in Europe.

Both sides are issues for the lower-income groups, reaching well into the middle classes. In the following section, a number of bottom-up initiatives in housing are reviewed. They explore organizational forms in which community orientation, neighborhood engagement, empowerment and social mix, and ecological sustainability form an inherent mix. This will not provide a catalogue of features that, once implemented, guarantee livability everywhere or in a specific context, but it will open up perspectives on housing, new partnerships and community-driven opportunities to deal with major trends in society and neighborhoods.

The selected examples of individual and neighborhood projects and policies highlight opportunities that have been implemented across Europe to improve the livability of cities and neighborhoods by a wide variety of actors, from (former) squatters to city governments, from activists to financial managers, and not least, by residents and those seeking homes. While the scope ranges from rental to ownership, the following definition of co-housing provides an umbrella of a livability vision that covers most of them:

“Co-housing includes intentional, inclusive communities with varying legal frameworks and degrees of resident participation in planning and managing the apartments or homes, common spaces and infrastructures, gardens, etc. It is a nonspeculative form of collaborative ownership.”²⁴

Grand Home Budapest

Co-housing is not common in Central and Eastern Europe. However, in response to an “over-caring” social housing sector mainly for people with severe social or health problems, co-housing is being researched and promoted in Hungary as a self-help solution for people with moderate or low-incomes.²⁵ One initiative is the

Community Living Knowledge Transfer Hub in Budapest. It initiated three real-laboratory projects, including the shared-flat initiative Grand Home Budapest.²⁶ With the goal of promoting affordable solutions in vacant dwellings, the project aims at a “collaborative shared-flat network”. The shared-flat community Szemer Estek is an example, where housing costs are divided according to income.²⁷ However, the case points to pitfalls in transferability: local historic experience, such as top-down forced “co-tenancy” in former communist countries²⁸, and housing cultures in general. As a result of these pitfalls, there are efforts to be made to raise awareness of the meaning and benefits of a collaborative network.

²² ID22, 2012; Fergusson, 2014; Ring, 2014; Sennett 2014

²³ All references given here to Haffner and Elsinga refer to their chapter in this publication. Also, I owe special thanks to Thomas Knorr-Siedow for a critical discussion of the first version of this chapter.

²⁴ CoHousing Cultures 2012

²⁵ Glatz, 2014

²⁶ <https://www.facebook.com/grandhomebudapest>

²⁷ Horogh/Komlósi, 2015; Glatz/ Komlósi, 2015

²⁸ Glatz 2014

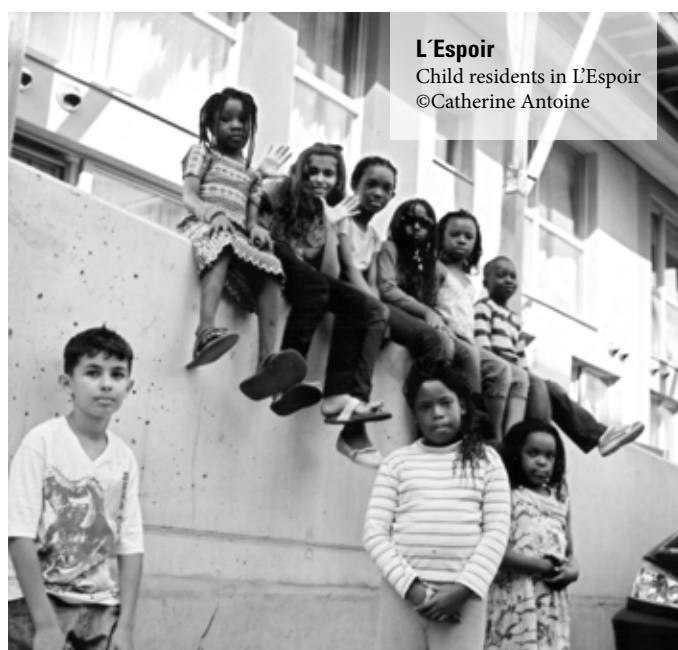


Grand Home Budapest
Planning and professional
workshops for community living
©Grand Home Budapest

From emancipative co-housing to socially-oriented land use

L'Espoir is an emancipative co-housing project in Brussels, initiated by the Bonnevie neighborhood center. The project was part of a local program developed with and for migrant families. The goal is to make ownership possible by building affordable housing. Following the example of middle class self-organized housing initiatives, a highly participative method was fundamental to the success of the project.

The passive energy building provides 14 large apartments for ethnically diverse immigrant families. It also particularly improves livability for women, through a design responding to gender-planning criteria such as floor plans oriented on the future residents' needs, child-friendly planning and shared spaces, and through skills-development activities designed to empower women. The community-oriented form of housing also supports the reconciliation of family care and employment.

*Community-driven housing solutions for the vulnerable*

Women — notably single women of all ages and single mothers with moderate or low incomes — are especially vulnerable when it comes to housing, be it in ownership or rental housing. Access, tenure security and cost overburden are acute risks for them. Among the reasons for this group's vulnerability are the sustained pay gap; rapidly changing family patterns; their longer life expectancy; and, as intersectional factors, migration and disabilities.³⁰ It is no surprise that women often are the main drivers in initiating co-housing or cooperative projects, in community-driven affordable rental stock, or in taking up traditional women's housing forms such as Beguine housing (Beginenhöfe), a living and spiritual

Given the increasing demand for such projects, the question arises as to how far they can be scaled up. Part of the strength of this project is being manageable on a self-organized level. The following project provides a promising answer as to whether such initiatives can be carried out on a much broader scale. L'Espoir became the incentive for creation of the first Brussels Community Land Trust. This trust helps, based on the L'Espoir project concept, hundreds of families in need of affordable housing and is now accepted as a partial solution to the housing supply crisis in the city.²⁹ The co-housing project l'Espoir proved the added value of community-driven, self-organized housing and property development for socially vulnerable low-income groups, and enhanced perspectives for a land-use policy focusing on the less privileged.

²⁹ DePauw 2012a, 2012b



concept for middle-age, single women, independent from the church, and seeing a revival in women's housing projects notably in Germany, Belgium and the Netherlands since the mid 1980s.

FrauenWohnen is a cooperative women's housing project in Munich, one of Germany's most expensive and dense housing markets. Based on the municipal Munich Modell, an ownership-oriented social housing subsidy program³¹, it allows affluent women and those with moderate or low incomes to live in a highly community-driven project.

³⁰ EUROSTAT, 2014, 2015

³¹ Droste, 2006

The pilot project in München-Riem consists of 49 rental flats, 28 of which were financed with income-dependent housing subsidies. Part of the livability concept materialises in shared spaces and shared social life in a cross-generational project with currently two follow-ups.³² An interesting, probably unique, aspect of this project is a field for women only in a Munich cemetery.

³² <http://www.frauenwohnen.de/>

Floorplan of FrauenWohnen e.G. Messestadt Riem



Housing for refugees is in many places considered a danger to local livability. Throughout Europe, co-housing projects have started — within their capacity — to provide homes for people in need (to name only a few examples: Sargfabrik in Vienna, Sharehaus and Spreefeld Cooperative in Berlin³³) or are being designed to do so. The Augsburg Grandhotel Cosmopolis chose a different approach, combining temporary accommodation for asylum seekers and refugee families within a normal hotel with artists' workspaces, a neighborhood café and workshops. The project builds upon a bottom-up initiative of artists, social workers and citizens who want to capitalize on the refugees' abilities and skills. The 2,600-square-meter property belongs to a protestant charity that provides for refugees of all religions. While the regional government rents the space provided to the refugees, the Grandhotel's association rents and manages the rest of the property on a cost-covering basis. The acclaimed success of the project makes it an example followed up by other projects for refugees.

³³ <http://spreefeld-berlin.de/>; www.sharehaus.net



FrauenWohnen

The pilot project in München-Riem ©FrauenWohnen eG



Grand Hotel Cosmopolis

Residents dining together. ©Grandhotel Cosmopolis



Grand Hotel Cosmopolis

Joint accommodation for tourists, refugees and asylum seekers. ©Jutta Geisenhofer

Grand Hotel Cosmopolis

Lobby area where residents meet.

©Alexander Kohler



The precarious housing market for people with various disabilities is proving another area where self-organization is taking place. The co-housing project Ostello Olinda in Milan is located on a municipal property — a former psychiatric clinic. Today the area is used by various social and cultural nongovernmental organizations. The nonprofit cooperative La Fabbrica di Olinda initiated Ostello Olinda, which provides 15 permanent flats for the disabled and a hostel open to the public. Integrating mentally ill people into housing and jobs provides an enabling environment. The hostel covers its costs, making it financially independent. Livability in the neighborhood is enhanced with the transformation of the formerly gated space into a community-driven, ecologically engaged and socially inviting neighborhood project.

Withdrawing housing from the market

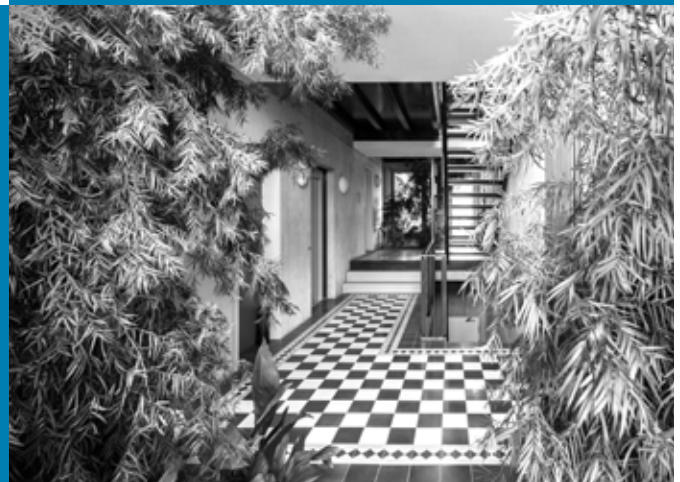
Withdrawing properties from market pressure and keeping them permanently affordable and nonprofit is an issue in many European cities with rising housing prices. The German Rental-Blocks-Syndicate (Mietshäuser-Syndikat) addresses this issue with 97 self-organized housing projects and 23 project initiatives, ranging from former squats and converted factories to rehabilitated blocks and some new builds across Germany.

The organization was founded in 1996 to facilitate affordable and liveable self-organized housing projects for residents in a precarious socioeconomic situation. Besides providing advice and sharing knowledge, the syndicate acts as a political lobby for the cause of self-organized and politically active housing. Each member project acts autonomously as a limited company owning the property in co-ownership with the syndicate. The syndicate itself is fully owned by all these individual limited companies, to prevent any profiteering by selling property without the syndicate's consent. Next to social standards, ecological sustainability is an actively pursued goal, along with an inclusive livability approach on the neighborhood level. The financial logic of the syndicate reacts to two housing market facts: First, it supports groups in the acquisition and building period, which usually puts the heaviest levy on the project members. Second, it includes a mandatory clause for all housing projects to contribute to a solidarity fund from which young projects can profit.

Currently, the status of the Rental-Blocks-Syndicate is that of a successful grassroots housing organization, providing long-term low-cost housing and building up a counter model to the market logic of rising prices and individual profit.

Safeguarding co-housing in real estate “hot spots”

In a number of European countries, socially inclusive housing cooperatives are attracting the interest of municipalities. Observed positive effects on neighborhood livability and the opportunity for upward mobility are also incentives for policy. The Vauban in Freiburg and Mühlenviertel in Tübingen, Germany are neighborhoods, where the municipality includes co-housing opportunities in larger urban renewal schemes. The public interest is to turn from social assistance to empowerment, and to support residential self-organization professionally through livability-centered urban planning.



Tübingen

The cocoon5 and Stapelbox (staple boxes) projects are two out of 40 co-housing groups in the urban development area “Alte Weberei” in the city of Tübingen. These are good examples of robust self-organized, intergenerational and affordable housing.

Source: Planungsgruppe agsn Architekten. ©Jens Klatt

In Nanterre near Paris, where rents and real estate prices have increased dramatically because of the effects of Grand Paris development plans, the left-wing mayor initiated the small housing cooperative Le Grand Portail in 2009 as a model project for upward mobility of social housing tenants. His model was the Vauban neighborhood in Freiburg (Germany). In order to safeguard lower-income populations' access to the local housing market, and to explicitly include a social aspect in the local livability concept, the project was located in the eco-village Hoche.

According to French social housing regulations, it could be developed one-third below market price. The group building and participative planning process have been

supported by the public planning agency Seine Arche, which was also responsible for the area's overall planning. Out of 40 interested families and individuals, 15 joined the cooperative, selected by the municipality. Some have origins in the Maghreb; all had lived in social housing before and now have a low to moderate, but stable, income. The project provided affordable ownership to those who otherwise would never have escaped social housing and who all belonged to a lifestyle group not expected to engage in a co-housing project.³⁴

³⁴ Carriou, 2014



Quartier Hoche
Opening of the Quartier
Hoche. ©Claire Carriou



Le Grand Portail
A participative housing
project supports social
mobility. ©Claire Carriou

Close to realization is Brixton Green,³⁵ a nonprofit, registered community-benefit mutual society in Somerleyton Road, in the heart of London. Since 2007, 40 local organizations and over 1,000 local citizens have become shareholders in a 100 percent voluntary project. Brixton Green aims at mixed-income rentals — combining mixed-use area with socially integrative job creation and training — and mutual support rather than social assistance in community-driven cooperative properties. The concept is based on a 250-year lease, to enable self-financing through rental

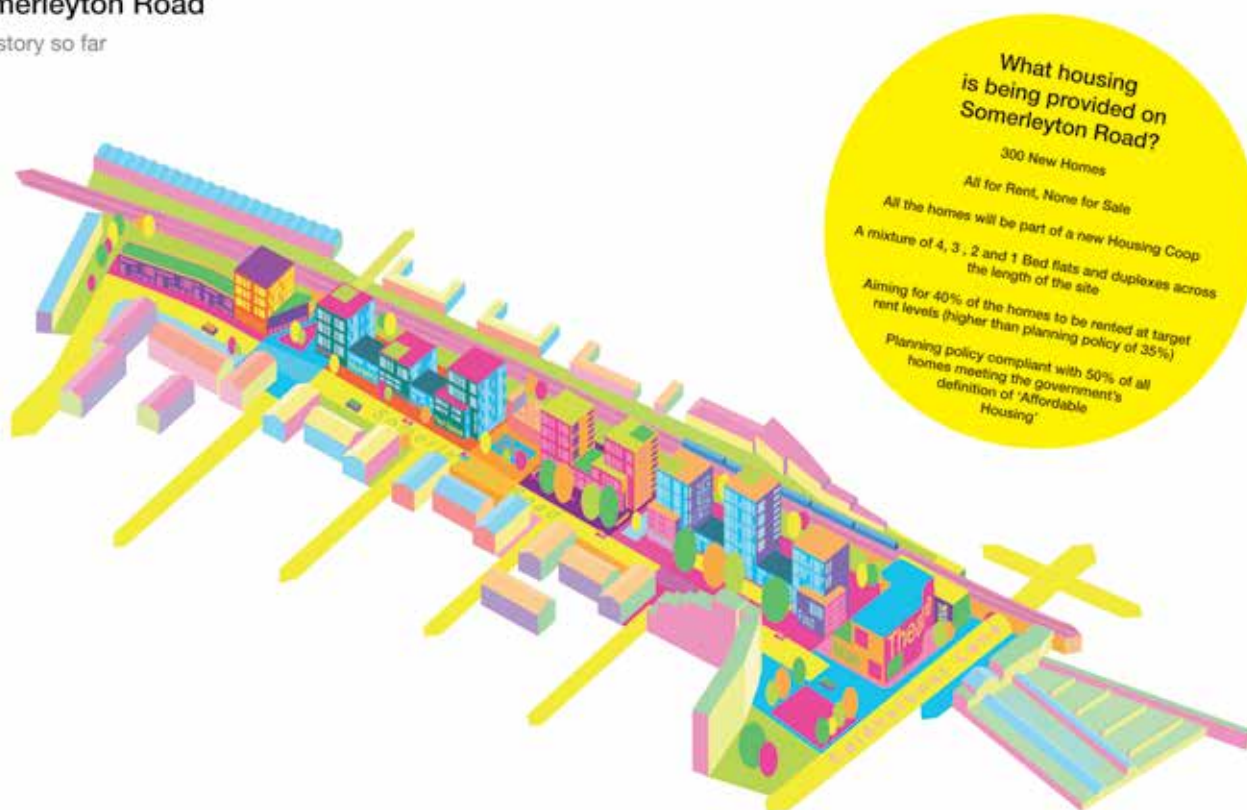
income and lifetime tenancies. Brixton Green targets participatory planning, environmental sustainability, and good opportunities for family life as key factors of livability for both the cooperative and the wider neighborhood. Both the dimension of the project and the bottom-up, but professionally steered, process show how community-driven housing and neighborhood development can and will challenge local governments' action in building future communities.³⁶

³⁵ <http://www.brixtongreen.org/>

³⁶ Roake, 2015

Somerleyton Road

The story so far



Dual Aspect



- Aiming for 100% dual aspect accommodation

Mix / Tenure



- A truly 'pepper-potted' scheme
- All rental properties, none for sale
- Aiming for 40% of the homes to be rented at target rent levels (higher than planning policy of 35%)
- Planning policy compliant with 50% of all homes meeting the government's definition of 'Affordable Housing'

Sustainability



- Igloo's sustainable methodology 'Footprint'
- Health, Happiness & Wellbeing; Regeneration; Environmental Sustainability; and Urban Design.

Community owned



- 250 year lease to a new community trust
- New amenities including a theatre, chef's school, children's centre, and space for community events
- Public realm improvements

Source: (c) BrixtonGreen

Berlin, a city that only lately has re-entered the international housing finance market, takes on urban livability not as a project, but a politically successful grassroots policy process. A developing housing shortage and price crisis was neglected by most of the city's politicians. A culture of initiatives developed that was sensitive to the livability issues caused by the marketization of housing, and began challenging the seemingly unavoidable constraints of housing in a market society. Starting small, it has developed into a large movement that cannot be neglected by local politicians. In an attempt to avoid confrontation, the renters' initiatives and city government in the summer of 2015 achieved a sustainable compromise that changes policies and practices to enhance urban livability. The compromise includes rent caps in some overpriced old social housing, a new city fund for building and housing, and an opening toward neighborhood-oriented housing alternatives and experiments in the growing city of Berlin.

Communities of opportunity

Livability as a concept can be a strong instrument for the analysis and active improvement of the living conditions of moderate- and lower-income groups. Understanding the qualities and constraints of clearly defined urban situations and decoding their livelihoods can provide local organizations, or the actors in the wide field of socially and culturally aware housing, with arguments that on the one hand are of explanatory value, and on the other hand provide a convincing basis for action.

Seen from the perspective of those in need of better housing and neighborhood quality, a livability-oriented assessment of past policies provides a critical perspective on the intended and unintended consequences of urban housing politics across Europe. The housing quality and social outcomes undeniably show a general material improvement from the point of view of the medium- and lower-income groups in the countries and most regions of the EU. However, if looked at in detail, important livability factors have been either overseen or missed, as the persistence of problems in neighborhoods and cities proves.

Comparative research on German, French and Dutch urban renewal policies in social housing areas showed how area-based approaches contributed to the success of urban renewal policies. They improved the livability of deprived areas and residents' individual housing and neighborhood conditions. But not all reasons for deprivation, above all access to decent jobs, could be solved on the local level. This and the influx of wealthier people led to negative side effects, such as the new residents taking over socially-integrative projects particularly in areas where the

educational infrastructure was improved, the migration of the poorest populations to adjacent neighborhoods or the transfer of problems like drug-abuse or violence to the latter.³⁷

EU, national, regional and local policies should be designed to react to the demands formulated by taking the livability approach seriously. Integration of funding and action that is both cross-thematic and departmental, respect for the diversity that is underlying precarious and problematic neighborhoods and housing, and true forms of partnerships and participation should dominate policies, if livability is to become mainstreamed. Methodologically, the implementation of policies and programs should be oriented much more toward capturing the continually evolving dynamics that permanently influence livability. Real-labs, research and advisory action across networks of actors should become permanent in grounding action and preventing policy failure.

The suggested strand of learning from the community land trusts and other forms of socially equal land-use policies, and from the diversity of self-organized housing and neighborhood projects, should not be left to remain on the margins of housing and neighborhood planning and building.

Critically assessing the outcomes, mainstreaming such elements in housing (co-housing, new forms of cooperatives) and neighborhoods (projects actively including the weakest in society) could be of great benefit for improving livability for large urban and rural groups. Evidence shows that new partnerships among self-organizations, local and national states, and the social housing providers representing a constrained market sector can be productive and successfully improve livability. However, mainstreaming can only be an option if critical reflections help prevent the pitfalls found in too much dependency on self-organized projects.

A main characteristic of these projects is to enhance livability with fewer resources than a professional housing provider or social carrier would have at their disposal. The difference in resources, the limited real estate and construction experience, and the complex decision-making cultures of self-organized projects means the project requires more time investment and significant integration into do-it-yourself networks.

³⁷ Droste, Lelevrier and Wassenberg, 2008.

There is also a certain level of risk with this type of voluntary project because of potential changes in participants throughout the project. Generally, collaboration between self-organization groups and larger housing providers' steering cultures and building standards requires learning and understanding from both sides. The participation and empowerment nature of these projects may limit their potential for up scaling.

Given the challenges and dynamics European cities have to face in the coming years, there are no easily adaptable solutions. Through more model projects and initiatives based on the experience of community-driven co-housing, the building blocks for improving the livability situation of moderate- and low-income populations will be well-secured.

Hungary

Ferenc and Magdi benefited from the "Housing First" program which enables people living on the streets to end their exclusion, move into and maintain a rented apartment, and find employment. ©Habitat for Humanity Hungary



Hungary's Housing First Program

Ferenc and Magdi never gave up their dream to have a home again. The couple have been together for 13 years. For 10 of those years, they were homeless. Ferenc lost his job because of illness, and soon afterwards did Magdi. Their under-paid odd jobs such as collecting paper and glass did not allow them to rent an apartment in the Hungarian capital, Budapest. Occasionally, they stayed at shelters especially in the winter. Mostly, they lived in tents and shacks.

For Ferenc and Magdi, shelters provide temporary relief but do not offer a way out of homelessness and poverty. To give more long-term support, Habitat for Humanity Hungary set up the Housing First programme. The programme enables people living on the streets along the river Danube in Budapest to end their exclusion, move into and maintain a rented apartment, and find employment.

The Housing First program renovates municipality-owned empty apartments with the help of volunteers and donated construction materials, and converts them into social rental units. The program wants to ensure recipients can keep their new homes so it also offers social support to help them find jobs. In 2014, Ferenc and Magdi, together with nine other homeless families, moved into their new apartments ending a decade of living on the street. Today they are focusing on rebuilding their lives and ensuring homelessness is a problem of the past.

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PART TWO

HOUSING REVIEW OF 15 COUNTRIES IN EUROPE AND CENTRAL ASIA

by Dr. Wolfgang Amman
Institute for Real Estate, Construction and Housing Ltd.

(Update of 2013 Habitat for Humanity Housing Review)

Central and Eastern Europe countries: Hungary, Poland, Slovakia
Southeastern Europe countries: Bosnia and Herzegovina, Bulgaria, Macedonia, Romania
Commonwealth of Independent States countries: Armenia, Azerbaijan, Kazakhstan,
Kyrgyzstan, Russia, Tajikistan, Ukraine
Other countries: Georgia



Housing stock in Europe and Central Asia

Kyrgyzstan (pictured) and Tajikistan, the countries with the smallest housing stock, have fewer than one-third the number of apartments per 1,000 inhabitants compared with Bulgaria (170 vs. 540).

©Habitat for Humanity International/
Steffan Hacker

A

Housing Stock and Provision

A.1 New developments since 2013

During the two years since the publication of the 2013 Habitat for Humanity Housing Review, the following main trends and changes are noteworthy in housing stock and provision:

- Quantitative housing provision is still quite diverse in the ECA region. The floor space per capita has even decreased in Central Asian countries, and the gap has widened further because of strong population growth.

- The ownership rate has further increased in most ECA countries and exceeds 90 percent in the majority of them. The establishment of rental housing sectors is still stagnant. In all metropolitan areas, substantial informal rental sectors exist but are statistically invisible. There have been few attempts to regularize rental housing with new regulations.

- Social rental housing is further declining in most ECA countries. Owner-occupied social housing faces growing significance because of large-scale social housing programs, e.g., in Russia.

- The quality of the housing stock has developed quite differently over the ECA region. Whereas in some CEE countries, e.g., Slovakia, housing refurbishment rates already exceed that of many Western countries, such building upgrading hardly takes place in most SEE and CIS countries.

- Even though awareness of this issue is increasing, housing refurbishment still has a negligible share of construction output in most ECA countries.

- Documentation of energy efficiency of residential buildings has improved significantly since 2013. Greenhouse gas emissions from buildings are decreasing slightly but remain insufficient to reach global targets on climate change. Some ECA countries show a clear increase in the use of renewable energy to heat buildings.

- Housing costs have developed quite differently in the ECA countries. Even though housing cost inflation was significantly above overall inflation in almost all ECA countries, the share of housing costs on total household consumption in most countries remained stable or even decreased. Several CEE countries have applied successful policies to hamper housing cost inflation and keep it below the growth of household incomes. Housing affordability seems to be better today than 10 years ago in many ECA countries. Unfortunately, this successful policy has had some negative impact. It was executed without consideration to the sustainable

management of the existing housing stock, leading to widespread underinvestment in maintenance and repair. Furthermore, keeping housing costs low was possible only by reducing mobility. The very low housing mobility in most of the ECA countries is a burden for economic development.

- Household energy costs are growing faster than housing costs despite the decrease in oil prices over the past two years. Yet, cutting energy costs through thermal refurbishment still barely pays off.

- It is widely recognized that effective housing management is crucial for housing maintenance and refurbishment. To address this issue, ECA countries have developed quite different approaches. Some focus on empowerment of owners' associations, while other countries return to former schemes of municipal responsibility for housing maintenance.

- All ECA countries face rapidly aging societies. On average in the 15 ECA countries, the share of the population over 60 will increase from today's level of below 20 percent to almost 30 percent in 2050, with an increase of more than 35 percent in some countries. Currently, Central Asian countries have a very high youth population, but the rise in the number of elderly people also will be massive in these countries. Housing policy is hardly prepared for this demographic challenge.

A.2 Housing stock

Housing provision in the ECA region varies considerably. Housing conditions are more favorable in those countries that joined the European Union in 2004 (Hungary, Poland and Slovakia) while Romania, Bulgaria and non-EU countries face significantly worse situations. Table 1 summarizes key housing characteristics across the region.

Altogether, the 15 ECA countries assembled in this report have a housing stock of approximately 126 million units, compared with around 236 million in the EU 28. The CIS countries are the biggest region, with almost 92 million housing units. Russia alone contributes half of all dwellings in the 15 ECA countries.

A.2.1 Housing provision

On average aggregated across the EU, the housing stock per 1,000 inhabitants is 468 dwellings, but in the average of the 15 ECA countries it is only 392 (see Figure 1), with significant variation.

Tajikistan and Kyrgyzstan, the countries with the smallest housing stock, have fewer than one-third the number of apartments per 1,000 inhabitants compared with Bulgaria (170 vs. 540).

Several countries have statistically improved their housing provision because of their decreasing population. This is particularly evident for Bulgaria (537 dwellings per 1,000 inhabitants), Hungary (446), Ukraine (427) and Russia (427), which now have quantitative housing provisions far above the average of the respective regions. In some countries, the number could be biased, as statistical treatment of holiday homes, i.e., properties rented for vacations, seems inconsistent. On the other end of the scale are some CIS countries with less than 170 housing units per 1,000 inhabitants. Both for Tajikistan and Kyrgyzstan, one major reason is strong demographic growth and insufficient new construction, hence the indicator has worsened in recent years for those countries.

Improvement of quantitative housing provision by emigration hardly relieves pressure on the housing markets. People predominantly emigrate from economically weak or rural regions (see Chapter C.2.2). Such vacancy hardly contributes to an improvement of the overall housing provision. During the transition period, hardly any of the ECA countries undertook new construction to ensure sustainable housing provision where demand is high, in particular the economically booming metropolitan areas. Hence, regional housing shortages exist in all ECA countries, regardless of whether

aggregate national housing is in surplus. Significant housing shortages in some areas have been caused by rural-urban migration over the past two decades, and by migration due to ethnic conflicts and refugee movement.¹ Evident indications for burdensome regional housing deficits are the extremely volatile housing markets in all capital cities in the region (see Chapter A.3).

Migration causes some areas, usually rural ones, to become abandoned, thus reducing the capacity for upgrades and repairs to services and infrastructure for those who remain in these areas. It increases housing demand in the (usually urban) migration poles, causing overcrowding, excess demand on services and infrastructure, and the development of informal, illegal settlements on the urban fringe.²

The contrast between the EU aggregate average and the ECA region is even more striking in consideration of useful floor space per capita, being 38 square meters for the EU 28, but only about 23 square meters in the average of the 15 ECA countries, which is around 40 percent below the EU average (Figure 8), ranging from only 11 square meters (Tajikistan) to 33 (Bulgaria, Hungary).³

¹ UNDP 1997; Council of Europe 2002: 12.

² HfH 2005: 14.

³ see Amann 2009: 25.

Figure 1 Housing stock per 1,000 inhabitants

Re.: Sums are weighted with population.

Source: National Statistical Offices, Eurostat, Euroconstruct, EECFA, IIBW

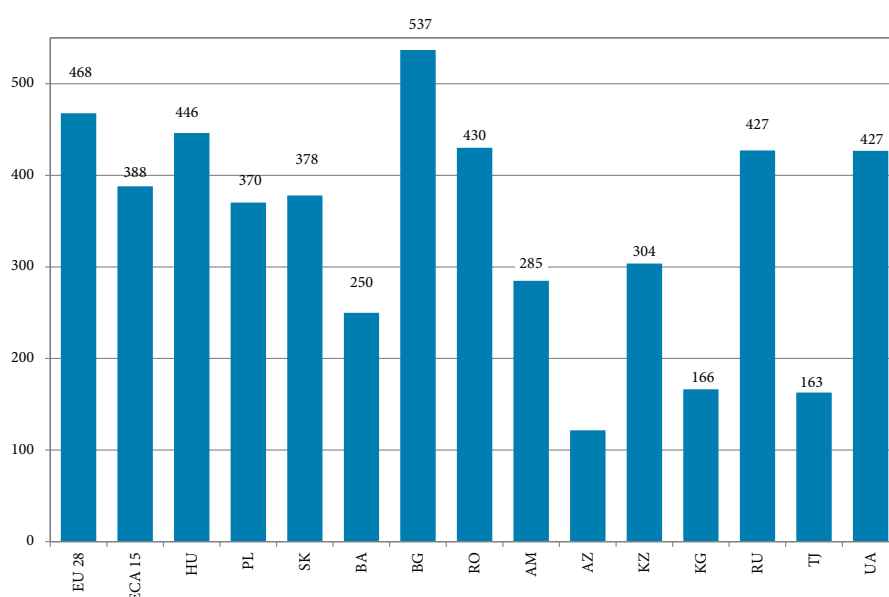
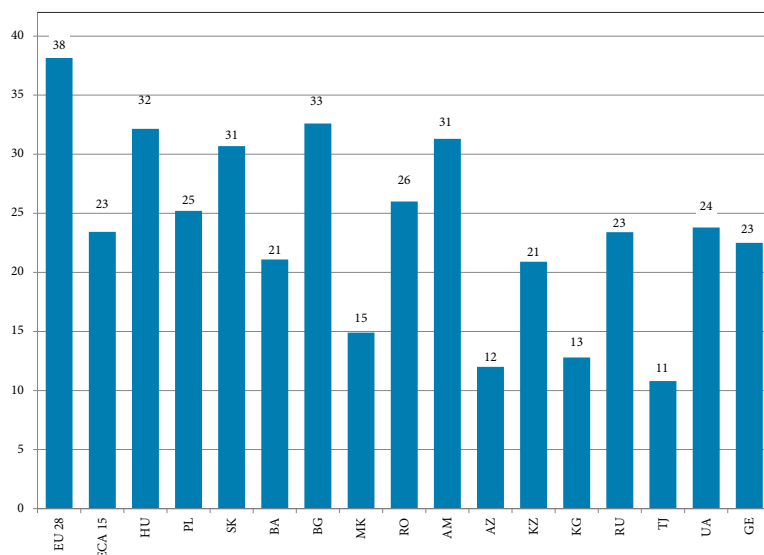


Figure 2 Average usable floorspace per capita (square meters)

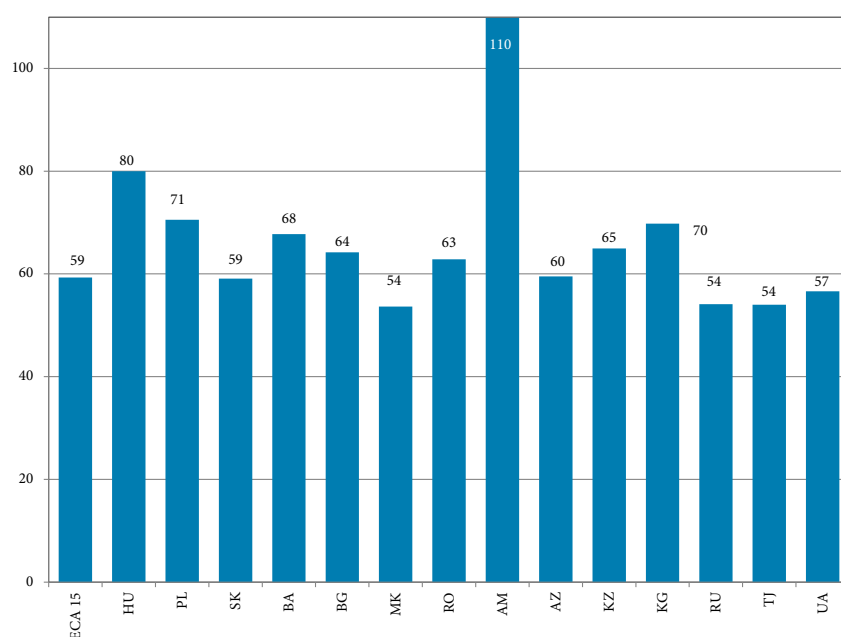
Re.: Data are mostly from 2013/14 but in a few cases are earlier.
 Statistical data on usable floor space are rather inconsistent because of different measurement methods.
 Therefore, an attempt was made to convert all data to the measurement method used in Western Europe, including all space within an apartment into the usable floor space (not only living rooms).
 Sums are weighted with population.

Source: National Statistical Offices, Eurostat, Euroconstruct, EECFA, IIBW

**Figure 3 Average usable floorspace per apartment (square meters)**

Re.: Data are mostly from 2013/14, but in a few cases are earlier.
 Statistical methodology on usable floor space see Figure 2.
 Sums are weighted with housing stock.

Source: National Statistical Offices, Eurostat, Euroconstruct, EECFA, IIBW



The average size of apartments in the ECA region is 59 square meters (Figure 3). It is much larger in the CEE countries, with almost 80 square meters in Hungary, but less than 60 square meters in Slovakia. SEE countries have average apartment sizes between below 60 (Macedonia)

and close to 70 square meters (Bosnia and Herzegovina). In CIS countries, average apartment size ranges between 55 (Russia, Tajikistan) and 60 square meters (Azerbaijan, Ukraine).

Table 1 Housing stock in the ECA region 2014

Re. Data are mostly from 2013/14, but in a few cases are older.
Housing stock per Jan. 1.
Share of social rents = below market level.
Sums weighted with housing stock.

Sources: National Statistical Offices, Eurostat, Euroconstruct, EECFA, IIBW.

Country	Housing stock (1,000 units)	Share of stock with central heating	Share of stock with fixed bath or shower	Ownership rate	Share of social rents	Share of market rents
EU28	236,000			70%	11%	19%
ECA15	126,000			90%		
CEE Countries						
Hungary	4,410			92%	8%	3%
Poland	14,080			78%	12%	4%
Slovakia	2,050	74%	93%	91%	2%	8%
SEE Countries						
Bosnia and Herzegovina	990		83%	78%		
Bulgaria	3,910	14%	82%	86%	13%	2%
Macedonia		96%	90%	95%		
Romania	8,580			96%	3%	1%
CIS Countries						
Armenia	860			98%	4%	1%
Azerbaijan		13%	79%	94%		
Kazakhstan	5,170	40%	39%	98%		
Kyrgyzstan	900	10%	21%	97%		
Russia	63,300	75%	64%	89%	13%	11%
Tajikistan	1,230		17%	97%	9%	
Ukraine	19,400		94%	93%	3%	2%
Other countries						
Georgia				95%		

A.2.2 Quality of housing stock

There is only limited statistical evidence on the quality of the housing stock in the ECA region. This is a question not only of statistical evidence, but also of defining the quality standards. Availability of central heating, WC or showers tells little about the quality of housing, if the building has exceeded technical life expectancy for decades, or if it has become insecure for public use.

Nevertheless, data should be documented if available. In the ECA region, and particularly in the CIS countries, the share of apartments equipped with basic utilities, such as a fixed bath or shower or central heating, is significantly below Western European standards. Whereas in most Western European countries, 90 percent to 100 percent of apartments are equipped with such utilities, in Slovakia, only 74 percent of households have central heating (Table 1). In SEE countries, where the climate is hotter, a divergent share of apartments is equipped with central heating – between 14 (Bulgaria) and 96 percent (Romania). CIS countries have a wide variation, with only 10 percent of apartments in Kyrgyzstan with central heating, compared with 75 percent in Russia. The share of apartments with a fixed bath or shower is close to the EU average in the CEE countries but far below that average in many SEE and CIS countries. For example, only 17 percent of apartments in Tajikistan meet that standard.

Much of the housing throughout the region was built in the three decades preceding transition, and so it is between 30 and 50 years old. The majority of this stock, however, was built from low-quality prefabricated materials in the form of multistory apartment buildings. In some cases, prefabricated buildings were executed with a very limited, planned life span. The quality of the housing stock suffers from decades of inadequate maintenance and underinvestment. Before and after transition, repairs and maintenance were quite limited, and investment in the existing stock was negligible.⁴

The transition period brought even further reductions in the resources available for building repair and maintenance. Because privatization was offered at very low costs – or in some cases for free – many of the people who received ownership rights were poor and lacked the resources necessary for even minimal levels of repair and maintenance. As unemployment and poverty escalated throughout the 1990s, new homeowners became even less able to pay for immediate housing repairs, let alone long-term maintenance and rehabilitation. During this time, public subsidies for housing maintenance and repair slowed to a trickle and in most countries were cut off completely.⁵

There is a big gap in the quality of housing stocks among ECA countries, both in older buildings, particularly prefabricated panel block buildings, and in new construction. Quality standards in CEE countries are basically similar to those of Western Europe. In contrast, in some SEE and CIS countries, parts of the existing housing stock are highly deteriorated. Particularly grave is the situation in some Central Asian and Caucasus countries. UNECE shows that, for example, Azerbaijan has many problems with leaking and unsafe roofs, nonfunctioning elevators, lack of proper insulation, neglected common areas, and structural problems with buildings.⁶ Similar findings have been made in Armenia⁷ and other countries in the region.

In CIS countries, housing from the 1950s and 1960s is called Chruschtschowkas. This voluminous stock is in part not eligible for refurbishment. The only option is replacement. But this is quite difficult after privatization of the majority of apartments and the expectation of the owners to get replacements for free.

A.2.3 Energy efficiency in the residential sector

There is a rising awareness of the significance of energy efficiency in the housing sector, as energy consumption and emissions for heating and cooling contribute heavily both to total energy consumption and household expenditure. In all ECA countries, energy poverty is becoming an important issue, as the energy consumption of buildings and energy prices are similar to those of Western countries, but household incomes are not (see Chapter D.4.3).

Concerning energy intensity on a general level, the 2013 World Bank report on energy efficiency states that “four ECA countries — Uzbekistan, Turkmenistan, Ukraine, and Kazakhstan — are among the eleven worst countries in the world in terms of energy intensity”⁸. In the residential sector, energy efficiency is also very low; the International Finance Corp., or IFC, launched programs on energy efficiency in residential housing in Russia, Ukraine and Albania in 2010. At the beginning of the projects, the IFC estimated that the residential housing sectors consumed approximately 20 percent of the country’s electricity usage in Russia and 25 percent in Ukraine, and 60 percent of the heat energy resources in Russia, versus 40 percent in Ukraine.

⁴Balchin 1997: 234-35

⁵UNECE 2003: 10.

⁶UNECE 2010a: 35.

⁷Amann & Komendantova 2010.

⁸World Bank 2013: 9.

In several countries, legislation is being updated to introduce more stringent rules for energy efficiency. For EU member and candidate states, the EU Energy Performance of Buildings Directive⁹ is of major importance, as it defines, for example, the implementation of energy performance certificates, energy audit and conditions of thermal refurbishment. For the Western Balkans and some CIS countries, the EU in 2005 initiated the “Energy Community” intergovernmental body, which has provided congruent legal regulations on the topic for several countries.¹⁰ In some CIS countries, legal reform in compliance with the EPBD is driven by policy reform projects financed by the IFC; the European Bank for Development and Reconstruction, or EBRD; and other donor organisations, to enable local homeowners’ associations and housing management companies to access finance to improve energy efficiency in multifamily residential buildings.¹¹ Furthermore, they work with the banking sectors of those countries to develop and market financially viable, energy-efficient housing loan products for homeowners’ associations and building management companies, e.g., the EBRD with its Sustainable Energy Financing Facilities.

Energy efficiency of a single building can be measured with several technical indicators, such as heat demand or total energy efficiency, as defined in the EPBD. They are part of the Energy Performance Certificates, which are obligatory for the total housing stock in the EU and those countries that apply legislation similar to the EPBD. Those data ought to be implemented in national and EU-wide databases. But this is not yet the case. Hence, there are few available statistics on the energy efficiency of the

housing stock. One approach to document this issue uses statistics on greenhouse gas emissions, which are available for EU countries and hence for five of the ECA countries documented in this report (Figure 4).

In the EU 28, average greenhouse gas emissions in buildings could be cut by almost 20 percent from 1990. Figure 4 reflects quite clearly the different developments and strategies in the ECA countries. Most of them reduced emissions significantly right after transition. This was, in the first instance, the result of a breakdown of state-driven tariff systems and subsidized energy prices and led to a precarious increase of energy poverty in the 1990s (see Chapter D.4.3). Another reason was a fuel switch in district heating from coal to gas. Increased energy efficiency of buildings didn’t play a significant role at that time.

Further increases of emissions is closely related to demographic and economic development. It remained stable in Bulgaria, but increased slightly in Poland and Romania. Slovakia and Poland show a significant decrease of greenhouse gas emissions in buildings from the 2000s. This development reflects the successful implementation of legal and financial schemes to promote thermal housing refurbishment. Today, Slovakia has a refurbishment rate above that of many Western countries, but at the expense of an extraordinarily high housing cost ratio. (See Figure 9)

⁹ EPBD recast, 2010/31/EU.

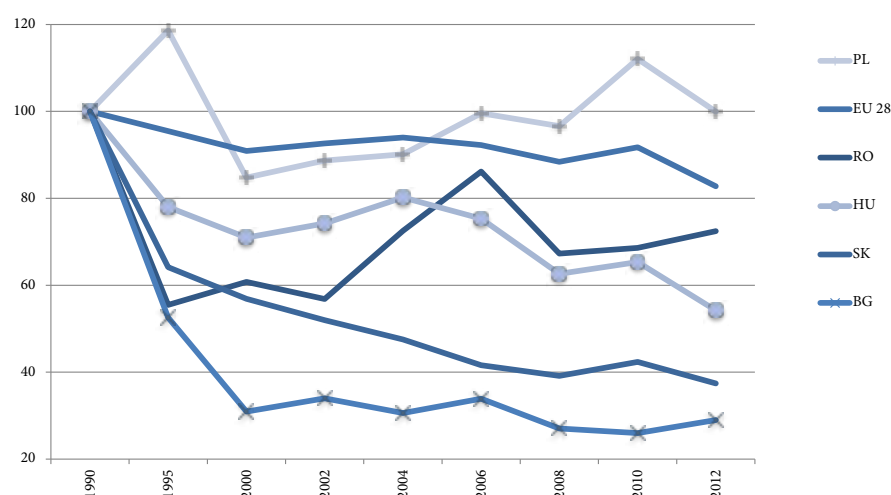
¹⁰ see e.g. UNECE 2010a: 34; UNECE, 2011; UNECE 2012.

¹¹ IFC 2010.

Figure 4 Greenhouse gas emissions in buildings (index, 1990=100)

Re.: CRF 1A4

Source: Eurostat, IIBW



Eurostat also provides data on renewables in energy consumption. A fuel switch to renewables does not necessarily increase energy efficiency, but it reduces greenhouse gas emissions. It is therefore of similar importance. In the EU 28, the average share of renewables in relation to total energy consumption almost doubled during the past decade from 8 to 15 percent. According to the EU Climate and Energy Package from 2009, this share should increase to 20 percent by 2020 (“20-20-20” targets). The five ECA countries have a total share of renewables in relation to total consumption of 13 percent. Romania and Bulgaria are above, while the others are below.

The use of renewable energy to heat and cool buildings in Romania and Bulgaria (Figure 5), has doubled to 30 percent since 2007. The other ECA countries are below the EU average, both regarding the current share and the dynamics during the past decade.

World Bank, United Nations Development Programme and other international organizations agree that one of the main obstacles to energy efficiency, besides policymaking, is the lack of awareness on the topic among large parts of the population in the ECA region.

A.2.4 Present refurbishment rate, need for refurbishment

Statistical data on the present refurbishment rate are not available for any of the ECA countries. Even for Western Europe, only estimates are available. This has to change, in view of very ambitious EU targets on the reduction of greenhouse gas emissions from heating and cooling. All

CEE countries and the SEE EU member and candidate countries are bound to EU energy targets. This is, in the short term, the EU 20/20/20 goals, which consist of a 20 percent reduction in greenhouse gas emissions from 1990 levels, raising the share of renewable energy consumption to 20 percent, and improving energy efficiency by 20 percent by 2020. In the long term -- until 2050 -- energy consumption in the housing sector ought to be reduced by not less than 90 percent.¹²

This means that virtually all of the existing housing stock requires thermal refurbishment, including the building surface, windows, doors and heating systems. For very low energy consumption, new innovative heating systems with ventilation and heat-exchanging devices will be necessary, and energy-efficient cooling will require thermo-active building systems. Western EU countries have set target refurbishment rates of 3 percent of the total housing stock per year, but at present it seems to be very difficult to exceed even 1 percent (e.g., in Germany or Austria).

In many ECA countries, energy performance requirements are subordinate to other urgent requirements of repair, such as roofs, elevators, staircases, facades and even structural elements. Information on the need for refurbishment in ECA countries is scarce. An old source estimates that Poland has 1 million units in need of major renovation, along with 300,000 that should be demolished.¹³

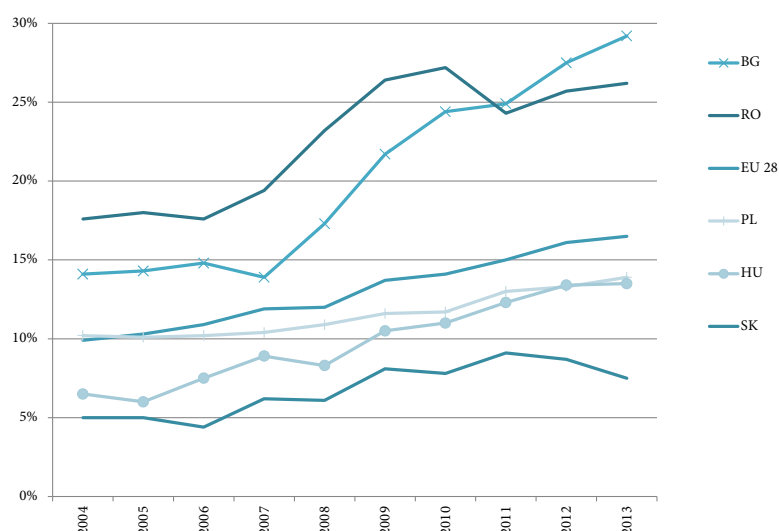
¹² EC 2011.

¹³ Ślabkiewicz 2000: 72.

Figure 5 Share of renewables for heating/cooling of buildings

Re.: Share of total final energy consumption

Source: Eurostat, IIBW



For Romania, the U.N. estimates that 40 percent of all urban housing is of low quality and in urgent need of investment.¹⁴ For Ukraine, the government estimates that all housing built during the “mass industrial housing development period” (about 10 percent of the national stock) needs either reconstruction or replacement.¹⁵ For Russia, the U.N. estimates that 11 percent of the stock needs urgent renovation and 9 percent should be demolished, and about 2 million people currently live in officially condemned housing.¹⁶ Demand for housing is described in Chapter B.2.6.

Figure 6 shows results from a Eurostat survey on framework conditions for construction in EU member states, i.e., the intention of owners to start major repair works. Even though this statistic covers only five of the 15 ECA countries of this report, it gives an insight. In the EU, an average of 40 to 45 percent of owners intend to perform major repairs. For the new EU member states, Poland is above the EU average, while Bulgaria and Hungary are below it and Romania and Slovakia are close to it. In the past few years, a slight upturn in the EU average numbers can be observed. This is even more evident for the five CEE/SEE countries. Romania and Bulgaria have shown a positive trend since 2010–11, and the other three countries have had positive trends since 2012.

Despite the intention for major repairs close to the EU average, the economic significance of housing refurbishment is quite low in the ECA region, compared with Western Europe. In “Euroconstruct” countries — 17 EU countries, plus Switzerland and Norway — technical production in the field of housing refurbishment is not less than 2.6 percent of GDP. In none of the ECA

countries — we have data on the seven highest developed of them: Bulgaria, Hungary, Poland, Romania, Russia, Slovakia, Ukraine — is it more than 1 percent (Hungary, Figure 7), the average of the seven countries is 0.4 percent. Particularly low is the share in Ukraine and Russia. Economic significance even decreased over time; it was at 0.7 percent in 2005. Only in 2014 can a slight upturn be detected.

Funding is a main barrier for thermal refurbishment. The savings of energy costs are usually by far not enough to finance rehabilitation. For this reason, ESCO, or Energy Savings Companies, models rarely work on a sustainable basis. Owners often are not able to afford the necessary investments. Subsidy schemes, if in place, usually close a small gap. Some international financing institutions have focused their activities on thermal housing rehabilitation. EBRD has introduced Sustainable Energy Financing Facilities, or SEFFs, in some ECA countries, including Russia, and it is preparing to introduce them in Ukraine.

But financing is not the only issue. Similarly burdensome are insufficient legal regulations on maintenance and repair (see Chapter A.5), particularly for condominiums and mixed-ownership premises. Owners associations are poorly implemented in many countries. The decision-making process of owners is insufficiently regulated. Opposing owners cannot be forced to contribute to refurbishment projects. Savings for a reserve fund for future investments in rehabilitation are mostly nonexistent.

¹⁴ UNECE Housing Profile Romania, 2001: 3-17; 95-106.

¹⁵ State Committee of Ukraine on Construction, Architecture and Housing Policy 1999.

¹⁶ UNECE Housing Profile Russia, 2004.

Figure 6 Major repair works intended

Source: Eurostat, IIBW

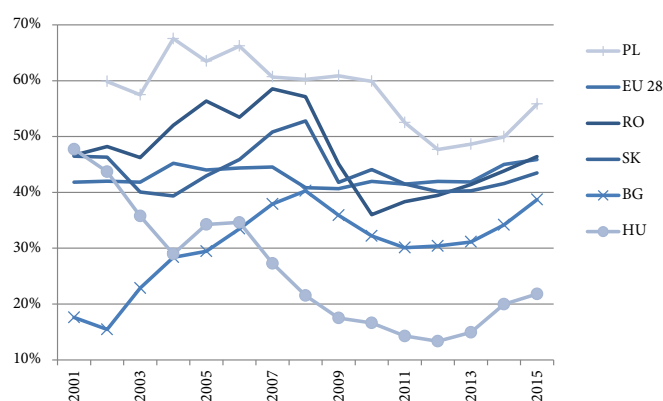
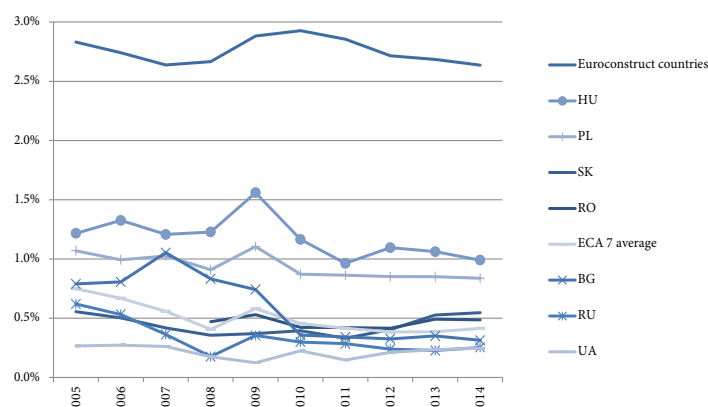


Figure 7 Share housing refurbishment on GDP

Re.: Sums are weighted with GDP.

Source: Euroconstruct, EEFC, Eurostat, IIBW



A.2.5 Informal housing

The challenge of informal settlements is widely recognized in international and national programs for change and action. At a global level, the UN-Habitat Agenda, adopted in 1996, and the Declaration on Cities and Other Human Settlements in the New Millennium, adopted by the U.N. General Assembly in 2001, reaffirm the commitment of governments to ensure access to adequate housing. Addressing the challenge of informal settlements is also critical for the achievement of the UN Sustainable Development Goals of 2015, particularly goal 11 “Make cities and human settlements inclusive, safe, resilient and sustainable.” On a regional level, The Vienna Declaration on National and Regional Policy Programmes regarding informal settlements in Southeastern Europe identifies the issue as a priority and engages countries in policies to legalize and improve informal settlements in a sustainable way. It argues that the prevention of future settlement formation is critical through sustainable urban management, principles of good governance, and inclusive capacity building.¹⁷ Successful regularisation efforts contribute to long-term economic growth and to social equity, cohesion and stability.¹⁸

Informal housing has grown rapidly since the early 1990s. For the SEE region, UN-HABITAT assesses that politically required rapid urbanization during the countries’ industrialization meant that the monopolistic socially-owned enterprises were not able to provide sufficient housing to the new arrivals. Illegal construction was further supported by urban plans that did not allocate sufficient affordable plots for individual construction. Authorities in former Yugoslavia had a higher tolerance toward informal housebuilding, so large informal areas in Montenegro, Serbia, Croatia, Bosnia and Herzegovina and Macedonia date back to the 1970s. Informal settlements in the Western Balkans expanded significantly after the Balkan Wars of the 1990s. However, the scale of these developments today is much more challenging and varied, from slums to luxury residences, from centrally located areas to suburbs, and from several small units to large settlements.¹⁹ Informal construction is fuelled by the fact that a building permit usually is not required for being connected to the service network (electricity, water, etc.).

Besides the Western Balkans, informal housing is an issue in most Central Asian and Caucasus countries. As an example, in the capital city of Kyrgyzstan, Bishkek, large-scale informal settlements appeared only in the early 2000s.²⁰ Informal housing is in many cases linked to Roma housing, e.g., in the Western Balkans, Bulgaria and Slovakia, as described in Chapter A.7.2.

The solutions implemented so far in SEE range from legalization and inclusion in formal urban plans, to regularization and provision of essential social services (schools, medical services) and technical infrastructure (safe roads, public transit, water and sewer), along with resettlement programs in social housing.²¹

Informal housing is not an urgent issue in Russia, Ukraine, Romania and most CEE countries.

A.3 Housing tenure

A.3.1 Tenure structure

Mass privatization and a lack of new rental housing construction led to a sharp decrease of rental housing in all transition countries in the 1990s. Today, more than half of the ECA countries may be classified as Super Homeownership States²² with ownership rates above 90 percent (Table 1). Whereas in the EU 28, the average homeownership rate is 70 percent, it is 89 percent in the average of the 15 ECA countries documented in this report. Generally speaking, there seems to be a correlation between the state of economic development of countries and lower ownership rates, with, e.g., Switzerland or Germany having ownership rates of below 50 percent.

Two of the CEE countries, Slovakia and Hungary, have ownership rates above 90 percent, while Poland is below 80 percent, still relying on strong housing cooperative sectors. SEE countries have an ownership rate of close to 90 percent on average, with particularly high shares in Romania and Macedonia. The situation is quite similar in the CIS region, with most countries being Super Homeownership States. Russia’s ownership rate has risen significantly, from just 73 percent in 2004 up to 89 percent at present. Reasons include ongoing privatization of the remaining public housing stock and massive new construction, which is mostly owner-occupied. Newly erected public housing is for rent, but with a right to privatize.

Formal rental housing has a decreasing significance in all transition countries, despite all the emphasis on re-establishing affordable rental housing (see Chapter B.3). Russia, Poland and Bulgaria have social rental housing sectors above the EU 28 average (i.e., more than 11 percent of the total housing stock). But the majority of ECA countries have far below that average. Market rental sectors differ even more from EU standards.

¹⁷ Vienna Declaration, 2004.

¹⁸ Amann & Tsenkova 2011: 16.

¹⁹ UN-HABITAT 2005: 125; Tsenkova 2011: 82.

²⁰ UNECE 2010b.

²¹ Tsenkova 2009; Tsenkova, Potsiou & Badina 2009.

²² Stephens, 2005.

Whereas 19 percent of the total housing stock in the EU is rented out on market conditions, that figure is less than 2 percent in most SEE and CIS countries (with the exception of Russia) and only slightly higher in the CEE region.

However, these statistics hide important differences in rental tenures. For example, cooperative housing has to be classified somewhere between rental and owner-occupied housing. In some countries, tenants of cooperative housing have tenancy rights close to ownership, but in other countries such dwellings are clearly rentals. In some countries, such as Poland, both types exist side by side.

On the other hand, an informal rental market has emerged in all transition countries. Privatized owner-occupied apartments are rented out, mainly serving demand at the lower end of the market. This tenure is mostly unregulated, with hardly any tenant protection (see Chapter A.6.5) or fiscal treatment. Despite its considerable size, this tenure sector is statistically elusive, with no real data available. It can be estimated that 20 to 30 percent of tenants in metropolitan areas live in rented apartments, depending on the economic strength of the cities and, linked to this, real estate prices.

Hence, the ownership rates listed in Table 1 have to be discussed as an approximation, which makes cross-country comparison quite difficult.²³

A.3.2 Affordable rental housing

Before transition, the significance and institutional setting of social rental housing was quite diverse. The public rental sector occupied more than 50 percent of the housing stock in the Soviet Union, about 28 percent in CEE countries, and only 19 percent in SEE countries such as Albania, Croatia and Bulgaria. It was primarily state-owned in CIS countries, but enterprise-owned in the former Yugoslavia. There, social ownership titles could be inherited and swapped for private ownership. Consequently, a social rental sector as such did not exist in the former Yugoslavia. The homeownership sector in Bulgaria or the cooperatives in Czechoslovakia functioned quite similarly.²⁴

But in the socialist housing system, the definition of social housing was quite uncertain, as the state housing policy followed a “unitary” structure, to use the term coined by J. Kemeny,²⁵ which meant that state-subsidized housing (both in the public and in the owner-occupied sector) was open for a wide range of different incomes and professional groups.²⁶

²³ Amann & Lawson, 2012; Amann & Mundt, 2011; Andrews, Caldera Sánchez, Johansson, 2011.

²⁴ Amann & Lawson 2012; Council of Europe 2002: 12-13; Charles Kendall / Eurasyllum 2009: 7.

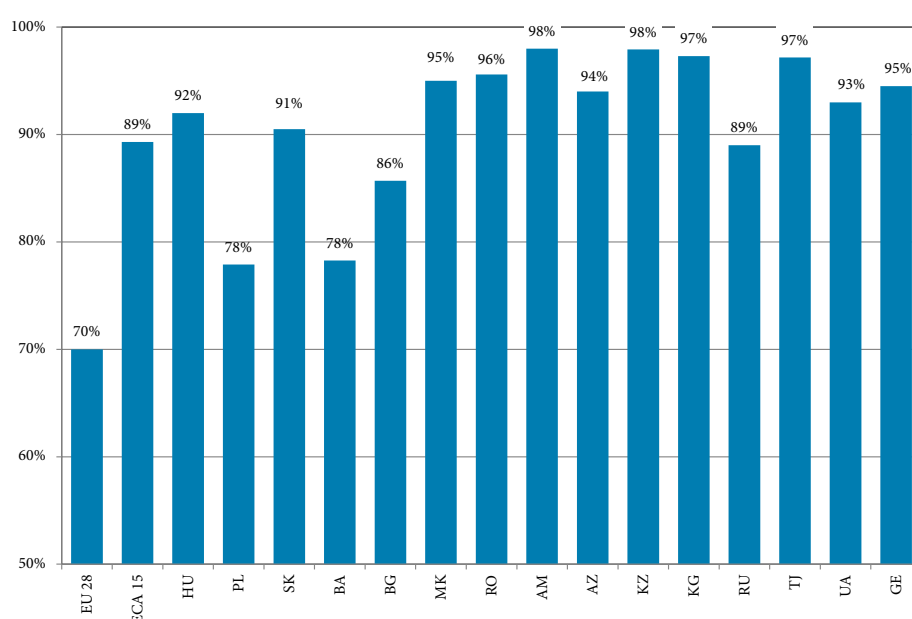
²⁵ Kemeny 1995, Kemeny et al. 2001, Kemeny et al. 2005.

²⁶ Amann, Hegedüs, Lux & Springler 2012

Figure 8 Ownership rates

Re.: Data are mostly from 2013/14, but in a few cases, it is earlier.
Sums are weighted with housing stock.

Source: National Statistical Offices, Eurostat, Euroconstruct, EECFA, IIBW



By the 1980s, it became clear that the governments were failing in their constitutional responsibility for the provision of adequate housing. Countries such as Hungary and Slovenia decided to maximize the resources of the population to address the persistent housing shortages. As a result, their shares of state-owned housing decreased. Other countries, such as Russia, devoted more budget resources to housing production, thereby retaining the emphasis on state rentals.²⁷

Currently, the share of social rental housing is 11 percent in the EU (2014). In the ECA region, the percentage of social rental housing is varied, with less than 5 percent of the housing stock in Slovakia, Romania, Ukraine, Azerbaijan and Armenia, but above the EU average in Russia, Poland and Bulgaria (Table 1). The costs of social rental housing in the ECA region are extremely low.

There is a clear link between rising house prices — and the resulting affordability problems — and the demand for public and affordable housing. The constant decrease of public housing has resulted in long waiting lists, keeping a large number of people in inadequate housing conditions or affecting their expenditures in other areas, such as food, clothing and health.²⁸ Having a sufficient supply of affordable housing affects different areas of development. It is important not only for shelter purposes, but also for the formation of a cohesive, inclusive society and for a country's economic development.

A.3.3 Housing privatization

In shifting from a command to a market economy, many countries across CEE and ECA have conducted a radical privatization of housing stock since 1990. By contrast to housing privatization in many Western European countries, only one model was applied: selling off social rental apartments at very low prices to sitting tenants. Other models, such as right-to-buy policies to sitting tenants (as in the United Kingdom), property transfers from public to not-for-profit actors (as in the Netherlands and the United Kingdom), and sale of public housing stocks to commercial investment companies (as in Germany), were not considered. The impact of housing privatization on the population has varied from country to country.²⁹

The starting place for privatizing the housing market was different for every country. In some countries, a private housing market had existed legally or clandestinely for many years before 1990. Although state ownership was extreme in Armenia or Russia, other countries, such as Bulgaria, Hungary and Slovenia, experienced levels of homeownership above those of Western Europe. In Czechoslovakia and Poland, cooperative housing was very important before 1990, and it continues to be important

today.³⁰ In most CEE and Central Asian countries, the public rental sector has decreased from previous levels of 20 percent to 50 percent or more of the housing stock to current levels of well below 10 percent. Hence, at least 40 million apartments in the ECA region were transferred from public to private.

Sale prices of privatization almost never came close to “replacement value,” a price that allows the public to build a new housing unit and hence keep the total social housing stock stable. Since privatization was never intended to be used for financing new social housing construction, this argument was hardly ever applied. By contrast, in many cases there was a consensus that sitting tenants had a legitimate claim for property rights on their apartment. Housing was in former times financed by contributions from the workers (in CIS countries to the state, in the former Yugoslavia as a fixed royalty from salaries to “Solidarity Funds”). As the former system of social transfers ceased to function, privatization to sitting tenants seemed to be the fairest solution to the biggest number of beneficiaries. In most cases, sale prices were below 20 percent of replacement value, but in many countries the sales were free or only symbolic. Giveaway privatization took place in Slovakia, Macedonia and most CIS countries.

Mass housing privatization is often assessed critically or negatively.³¹ The following main negative aspects are detected:

- Rash implementation negated old systems before the new mechanisms were established, particularly condominium legislation and regulations on housing maintenance and management.³²
- Privatization diminished affordable rental housing. What was good for the sitting tenants up to that time became a big disadvantage for following generations. If today young households, migrants to the cities, and the poor are confronted with a very difficult housing situation, it is the result of that transitional policy.
- Mass privatization and the rapid increase of ownership rates contributed to the very low housing and labor mobility in ECA countries, which led to negative effects on overall economic development (see Chapter D.2.2).

²⁷ Roy 2008: 136.

²⁸ UN Special Rapporteur 2009: para. 34.

²⁹ UN Special Rapporteur 2009: para. 37, 39. Hegedüs et al. 2012: 41.

³⁰ Struyk 2000: 3.

³¹ e.g., UNECE 2003, Balchin 1997: 243; HfH 2005: 29; Dübel et al. 2006; Tsenkova 2009; Amann 2009; Amann, Hegedüs, Lux & Springler 2012.

³² UNDP 1997: 67.

■ Finally, privatization generated plenty of “poor owners,” who are hardly in a position to take over the responsibility linked to their property. Not only can poor owners hardly benefit from the asset of owning an apartment (e.g., as security for business activities), but also they are mainly responsible for the poor effectiveness of condominium management. Being barely able to contribute financially to maintenance and repair of general parts of the buildings, they aggravate decision-making processes within owners’ associations and cause improvement measures to fail. Orderly housing maintenance works only with a low share of free riders. If there are too many in one building, both decision-making and funding will fail.

With these issues unresolved, deteriorating privatized housing will in the medium term become a heavy public liability. If private owners resist taking over responsibility for repairs, this responsibility will fall back to the public. An example is the necessary large-scale replacement of Chruschtschowkas, social housing from the 1950s and 1960s in the former Soviet Union, which is today mostly owner-occupied. The only economically feasible model found so far is replacement on a commercial basis with massive redensification and exchange of the old deteriorated flats with (smaller) new ones free of charge. It worked in a couple of projects in Moscow, where housing markets are on top and the value of the building land (which even after privatization remained in public property) is accordingly high. It means that those who got an apartment free of charge in the course of privatization get another apartment for free, this time even a newly constructed one. It is not only questionable whether this kind of social transfer is fair, but also whether this “Moscow model” is feasible under “normal” economic preconditions.

But leaving unwilling owners in collapsing structures is no political option. The public wanted to get rid of the responsibility for housing provision of the poor. This proved to be an illusion. Housing for those in need will always be a public service obligation.

It seems reasonable to also value some positive aspects of privatization. In many individual cases, the underlying core idea of privatization to give households an asset succeeded. Ownership of the inhabited apartment was, in many cases, a starting point for economic well-being. Housing privatization was probably the best visible symbol of the system change to a market economy. It was, therefore, politically highly rational. With the applied inadequate model of housing privatization, implementation was possible in the short term. Any complex model, anticipating problems as seen today, would have been much more difficult to implement with a lot of political risks. Housing privatization was quite popular. People enjoyed the opportunity to become the

legal owners of their apartments, as it promised security and some economic safeguard. Rapid implementation is therefore understandable.

Ownership made it easier for many poor households to survive the following economic hardship. Even today, low-cost housing in owner-occupied apartments is a core element of something that could be called a “social contract” in countries such as Ukraine or Russia. Those who lost from transition by being dropped out of the labor market or losing promised claims for future benefits by massive inflation and change of insurance schemes were thus provided with the basics for a decent living. Most ECA countries have housing cost ratios below the EU average (see Chapter A.4). Very low housing costs in combination with multiple privileges (free public transport and medical services) allow even elderly people with very low pensions not only to survive, but to live a life in some dignity.

In times of introduction of privatization laws, an increase of ownership rates was a main international trend. Policymakers all over the world believed this to be a core measure for economic progress. But differentiation was missing: Among all worldwide policies to increase homeownership, the ECA model of housing privatization was one of the most successful in quantity, but one of the most problematic in quality.

A.3.4 Restitution

Few of the ECA countries covered in this section (Poland, Bulgaria and Romania) used restitution in addition to privatization. Under restitution, the rights of the former owners to regain title to their property took precedence over the rights of sitting tenants to buy the unit through privatization. This left sitting tenants with limited tenancy rights to their current housing and often without ownership rights to any housing. In some cases, it led to eviction. Restitution provoked many disturbances, mainly because of corrupt practices and the insufficient availability of affordable housing alternatives. In countries of the former Soviet Union, restitution had hardly any significance.

Restitution has a different dimension in post-conflict countries. In Bosnia and Herzegovina, Kosovo or Tajikistan, restitution rights have been recognized, and laws and procedures have been developed and enforced. Within this process, many displaced people have been able to return to repossess and re-inhabit their original homes, lands and properties.³³

³³ COHRE 2005: 4.

After 25 years of transition, restitution is in most places fading out. But it could gain significance in current areas of conflict, e.g., in Eastern Ukraine, if property rights of those who left are mistreated.

A.4 Housing costs

A.4.1 Housing cost inflation

Price inflation in the EU 28 was 2.1 percent per annum on average from 2004 to 2014, whereas housing costs (CPI housing) increased by 3.6 percent and energy by 5.3 percent per year (despite decreasing energy costs in 2014). This makes a difference. In ECA countries, price inflation was generally higher (see Figure 21), but house price inflation exceeded even general inflation. For the three CEE countries, the yearly average price inflation from 2004 to 2014 was 2.4 percent (Slovakia, Poland) to 4.2 percent (Hungary), but housing costs increased by 4 percent (Slovakia, Poland) to 5.4 percent (Hungary, Table 2). Hence, housing cost increased in the average of the past year around 1.5 percentage points stronger than prices in general. In Romania, the spread was even stronger, with 5.4 percent general inflation and 8.9 percent housing cost inflation. Bulgaria is an exception, as house prices increased by 4.1 percent, slightly lower than general prices. Depressing house price inflation was a specific focus of the Bulgarian government in recent years.

For other ECA countries, data on house price inflation is scattered. In Kazakhstan, the average house price increased by more than 9 percent in the past eight years, which is only slightly above the general inflation. For Russia, house price inflation exceeded general inflation until the mid-2000s. Since then, the two indicators have approached one another.

A.4.2 Housing cost ratio below EU average

The strong housing cost inflation is only partly reflected in increased shares of housing expenditures within the budgets of the individual households. In Europe, 24.1 percent of private consumption is spent on housing (2012/13). In 2004 it was only 21.3 percent. The sources for this number are national accounts. It is therefore not a household view on expenditure, but a “top-down” national economics point of view. A different concept is applied by EU-SILC (Statistics on Incomes and Living Conditions), which provides data on housing expenditures based on a large household survey in all EU member and candidate states. This is a “bottom-up” approach from the household point of view. Under this concept, the housing costs of European households (including energy costs) amounted in 2013 to 22.2 percent of disposable household income. The two numbers seem similar, but both sources show

some severe inconsistencies. As always, statistical data have to be treated and interpreted with care.

The housing cost ratio (national accounts) in ECA countries is only 12 percent, half the EU average, and has been stable over the past decade (Figure 21). This result is striking. The ratio exceeds the EU average only in Slovakia. But among the other CEE countries, Hungary and Poland are close to the EU average. Only in Hungary has the ratio increased in the past decade (by 3 percentage points), whereas it was stable in the other two countries. In the SEE region, Bosnia and Herzegovina and Romania have ratios only slightly below the EU average, whereas Bulgarian households spend only 17 and Macedonian 20 percent of private consumption on housing. Ten years ago, the ratios in these countries were close to those of the other two of the SEE region, but they have decreased by almost 3 percentage points since then.

Data from EU SILC give a different picture (but only for five of the 15 ECA countries). According to this source, households have to spend a particularly high share of disposable income on housing and household energy in Bulgaria (28 percent) and Hungary (24 percent), whereas the share is similar to the EU average in Romania (22 percent), but below in Slovakia (21 percent) and Poland (18 percent). Following this data source, since 2005 (when it was introduced), housing costs in Poland increased significantly (5 percentage points), whereas they decreased significantly in Hungary, Bulgaria and Slovakia (4-5 percentage points). In Romania, they increased slightly by 1 percentage point, similar to the EU average. Differences between the two data sources are, for other EU countries, explained in part by different ownership rates (consideration of imputed rents in national accounts, but not in EU SILC) and different treatment of mortgage payments. But those aspects are relatively consistent in ECA countries.

In the CIS region, housing costs exceed 10 percent of private consumption only in Armenia and Georgia. In the Central Asian countries of Kyrgyzstan and Tajikistan, it is even below 5 percent. The ratio increased in the past decade only in Armenia (where it doubled), Azerbaijan and Georgia (each around 2.5 percentage points), whereas it remained stable in all other CIS countries, including Russia and Ukraine.

The low housing cost ratios in many ECA and particularly in CIS countries have the following reasons:

■ Generally, poorer countries have lower housing cost ratios than more developed countries, because a much higher share of expenditures goes to meet basic needs, in particular food.

■ The intention of mass housing privatization to keep housing costs for much of the population on a low and stable level succeeded (see Chapter A.3.3).

■ The ineffectiveness of housing maintenance schemes with hardly any household expenditures on housing management, maintenance and repair has contributed to lasting low housing costs. But it must be clear that this is at the cost of the residents' welfare and future investment requirements.

■ The development of utility costs (household energy, maintenance services) is in many CIS countries significantly depressed by state definition of tariffs, even if utility providers are in many cases privatized. Resulting losses are covered by direct subsidies from the state or municipalities. They are, e.g., for Ukraine estimated by 1 percent of GDP.³⁴ This is a huge shift of national wealth to private households.

■ The old stock of owner-occupied housing, whether owner-occupied from the beginning or privatized, was basically financed without mortgages, and hence has no financing costs at present.

■ The mostly very high house-price-to-income ratios for new condominium dwellings seem to have minor influence on the statistics because of the still low quantity of this part of the housing stock.

■ The low housing mobility in most ECA countries — in several cases below 2 percent per year, compared with more than 10 percent, for example, in the USA — is a major break for housing cost development. On the other hand, the low mobility is basically caused by the inaffordability of changing accommodation. Low housing

mobility and, hence, labor mobility are assumed to be the main barriers for the economic development of ECA countries.

A.4.3 Housing cost overburden rate

EU-SILC also provides data on the overburden of housing costs. This is defined as spending more than 40 percent of the disposable household income on rents, mortgages, maintenance and energy. This means that a household with a total net income of €1,000 per month has to spend more than €400 for accommodation, including mortgage rates and energy. This seems to be a good indicator of poverty housing. In the EU average, 1 out of 10 households belongs to this category (Table 2, p. 95). This share has been basically stable since 2005.

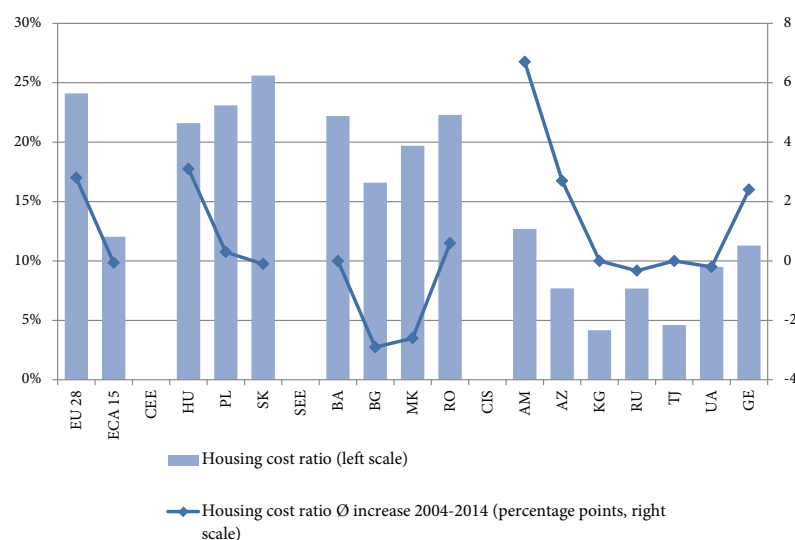
In the EU member and candidate states within the ECA region, the situation differs quite a lot. And again it gives no consistent picture. In Bulgaria and Slovakia, the housing cost overburden rate is below the EU average. In Romania and Hungary, the rate is close to the EU average, while it is extremely high in Poland. Since introduction of the database, the overburden rate decreased slightly in Slovakia, was stable in Bulgaria and Romania, increased in Hungary and skyrocketed in Poland.

³⁴ UNECE 2013a, 22, 23.

Figure 9 Housing cost ratio

Re.: For CEE/SEE countries data from National Accounts, for CIS countries Household Living Condition Survey. Data are mostly from 2012/13, but in a few cases are earlier. Sums are weighted with housing stock.

Source: Eurostat, National Statistical Offices, IBW



A.5 Housing maintenance and services

European countries have developed quite different schemes of housing management over time. These schemes differ in terms of legal regulations, scope of tasks of housing managers, financial aspects and the institutional setting.

A.5.1 Trouble with common ownership

The development of housing management and maintenance is closely related to mass housing privatization and the prevalent tenure in all ECA countries of owner-occupied housing. Table 3 (Chapter A.6.1) gives an overview of condominium legislation and voluntariness of the establishment of owners' associations. In the 1990s and 2000s, all ECA countries introduced condominium legislation. But organization of owners differs:

■ Most CEE countries, e.g., Poland, followed the example of many Western countries of obligatory owners' associations, which are established without decision of owners at the moment when the first dwelling within a building becomes an independent property of a private owner.

■ In most SEE countries the establishment of owners' associations is obligatory, but requires an act of decision of the owners. This results in a generally poor enforcement of owners' associations in these countries.

■ Most CIS countries followed the example of Russia, where in the 1990s the Constitutional Court decided that obligatory owners' associations would violate the freedom of association. Here owners' associations are voluntary and only a minority way of organizing multiapartment buildings. In most CIS countries, the Soviet-era housing and maintenance organizations, or ZhEKs, still play a crucial role. In some cases, the privatized apartment buildings are still on the balance sheet of those ZhEKs. There are few incentives to establish owners' associations, as provision of municipal utility services still depends on ZhEKs.

In many countries, owners' associations are not a legal entity and hence cannot act accordingly, for example, in taking loans or running lawsuits against individual owners in the case of payment arrears.

In many cases, privatization did not concern the entire building, including the land below (see Chapter A.3.3). It is not just a question of maintenance of common parts of the buildings; it is also about legal rights and obligations for common infrastructure, such as constructive parts,

staircases, elevators or roofs. If the involved parties have no legal or contractual relation to one another on this infrastructure, problems with common use are inevitable.

A.5.2 Housing management and maintenance

Before transition, the multiapartment housing stock was managed by the state or municipal housing and maintenance organizations (ZhEKs in former Soviet Union countries), by company-based agencies (in the former Yugoslavia) or by cooperatives. There was no perception of the sitting tenants having responsibility for housing management. This has in most SEE and CIS countries scarcely changed. The importance of maintenance as a precondition for keeping up the intrinsic value of the building is still barely understood.

In the course of transition, housing management developed differently. In some countries, such as Russia and Serbia, housing management was continually organized by state management companies. In others, such as Romania and Hungary, the new condominiums had full responsibility for management and maintenance.³⁵ In some CIS countries, such as Armenia, the new concept of owners' associations gradually transformed to a hybrid with the former state management agencies or ZhEKs.³⁶ Professional private housing management companies are allowed everywhere, but are in many countries for cost reasons hardly marketable for the existing housing stock. Aside from existing cooperatives and public services, there are no attempts detected to implement new business models for affordable housing management, for example on a public-private partnership basis.

In all these forms of housing management, the lowest possible management and maintenance fees are encouraged. In Western countries such as Germany or Austria, fees for housing management and maintenance, including a built-up reserve fund for major repairs, amount to around €3 per square meter per month, with a collection rate of close to 100 percent. In the least-developed ECA countries, such as Armenia, the typical maintenance fee is 2¢ per square meter, with a collection rate close to 50 percent.³⁷

The development of effective housing management schemes is hampered by the partly very low purchase power of owners, resulting from giveaway privatization in many countries.³⁸

³⁵ Hegedüs et al. 2012: 43, PRC 2005

³⁶ Amann & Komendantova 2010

³⁷ Amann & Komendantova 2010.

³⁸ Charles Kendall / Eurasyllum 2009: 24.

Considering the importance of keeping management and maintenance costs low, different strategies to maintain the buildings have evolved. In many cases, public utility costs, which in the West are included in maintenance fees, are contracted with the individual households, particularly water and sewerage. Costs for energy in common areas (such as lighting and elevators) are often organized by energy providers as an implicit part of individual contracts on energy provision. Housing management is often organized by single owners or semiprofessional individuals who serve a couple of buildings in the neighborhood. In CIS countries, the old-style ZhEKs still provide low-cost housing management services. Other services such as waste disposal or cleaning of common parts outside the buildings are often provided by the public, without a clear division between private and public responsibility.

In a 2013 Habitat for Humanity/IIBW survey on all ECA countries, hardly any example of a legal implementation of reserve funds to collect savings for future major repairs was found. Similar regulations are important pillars of sustainable development and thermal refurbishment of the existing housing stock in several Western countries. In ECA countries, major repairs require full financing from the owners, the public or international donors. In a few cases, energy savings contribute to covering the cost, but only to a limited extent. Banks are usually reluctant to contract financing of rehabilitation work with owners' associations, since effective mechanisms between the association and the single owners to claim liens are widely missing.³⁹ Hence, financing is often possible only if all owners agree. Such investments are therefore rare.

³⁹ Lujanen 2010.

Table 2 Housing costs in the ECA region 2010/11

Re. Data are mostly from 2013/14, but in a few cases (share of housing allowances) it is older.
Sums are weighted with GDP (National accounts, CPI) or housing stock (EU-SILC).
EU-SILC: Eurostat Statistics on Incomes and Living Conditions.
CPI Housing: Harmonized Consumer Price Index for the expenditure group „housing.“

Sources: Eurostat

Country	Housing cost ratio (Nat. Accounts) (%)	HCPI Housing Ø 2004-2014 (%)	Household energy cost ratio (%)	HCPI Energy Ø 2004-2014 (%)	Housing cost ratio (EU-SILC, %)	Share of households with housing allowances (%)
EU28	24.1%	3.6%	4.5%	5.3%	22.2%	
ECA15	12.0%		5.1%			
CEE Countries						
Hungary	21.6%	5.4%	7.2%	6.0%	24.4%	10%
Poland	23.1%	4.3%	9.0%	5.0%	18.3%	13%
Slovakia	25.6%	4.0%	11.3%	3.9%	20.5%	2%
SEE Countries						
Bosnia and Herzegovina	22.2%					
Bulgaria	16.6%	4.1%	4.7%	5.1%	28.2%	none
Macedonia	19.7%		6.2%			
Romania	22.3%	8.9%	5.0%	7.9%	22.4%	only "heating allowance"
CIS Countries						
Armenia	12.7%		3.8%			no official data: almost non-existent
Azerbaijan	7.7%					
Kazakhstan		9.3%		12.1%		
Kyrgyzstan	4.2%					
Russia	7.7%		3.9%			11%
Tajikistan	4.6%		2.4%			
Ukraine	9.5%		5.6%			7%
Other countries						
Georgia	11.3%					

Good practice: Housing management and refurbishment in Slovakia

The example of Slovakia shows that effective housing management is possible even without mandatory owners' associations. Slovakia has achieved remarkable results in (thermal) refurbishment of the multiapartment housing stock, with 30-45 percent refurbished since 1996. Successful introduction of housing management and high refurbishment rates seem to depend on three measures, which work in combination and mutual dependence: consistent legal regulations (see Table 3, p. 98), favorable financing instruments and consequent awareness raising of owners.

Owners have the choice between two types of housing management and maintenance: the establishment of an owners' association or the conclusion of a contract between every individual dwelling owner and a management company, i.e., the obligation for all owners to sign a contract with the same and only management company. There is no option for multiapartment buildings to go without housing management.

The law stipulates several requirements to external housing managers, e.g., financial reliability, different accounts per building, transparency of all activities, main contents of the management contract. The housing manager is obliged to assess every building at least annually regarding its visual and technical state and to report to the owners. Main aspects of service provision are governed by individual contracts.

The owners are obliged to establish a maintenance and repair fund, but without a defined minimum contribution. A core factor of success was the strong increase of voluntary payments of owners into the maintenance and repair funds, which is estimated at 50 cents to €1 per square meter today. This was possible by placing trust into the system of savings for future refurbishment projects and security of accounts.

The cash flows to endow the maintenance and repair funds are of primary importance for financing refurbishment projects. This is used by banks to assess the capacity to reimburse and, subsequently, to make decisions on loans.

Payment discipline seems high, partly because of a set of legal remedies to be taken by the housing manager,

including payment reminders; monitions; debt collection services; and, as a last resort, foreclosure procedures or voluntary public sale.

The *raison d'être* for housing management is operation of residential buildings in the long term (as from a practical point of view, owner-occupied buildings are here to stay; it is almost impossible to end an owners' association).

If a qualified majority (two-thirds of owners) decides for a homeowners' association, or HOA, then affiliation is obligatory for all owners. Ownership of an apartment is inseparably linked with joint ownership on common parts of the building. But HOAs have been established only in a minority of multiapartment buildings. Decision making is the same for buildings with HOAs and those without. Decisions on repair works, even comprehensive projects, are possible with the simple majority of owners present at the general assembly. Other decisions require a two-thirds majority of all owners, e.g., on taking a loan. Hence, it is easy to find a decision to refurbish, but difficult for one to take a loan in the name of all owners.

In parallel with housing management in the 1990s, financing instruments for housing renovation were introduced. When those financing programs started, the capital market environment was quite difficult, with interest rates far above 10 percent. Banks had no experience with loans given to hundreds of owners, including subsidies to the financing models.

Today, financing of major refurbishment projects addresses private financing ("Bauspar" scheme, commercial loans, consumer credits) and public financing (State Housing Funds / Štátny fond rozvoja bývania: ŠFRB, Slovak Guarantee and Development Bank / Slovenská záručná a rozvojová banka a.s.: SZRB; direct subsidies from ministry).

The borrower differs depending on the organization of apartment owners. For an owners' association, the HOA as a legal body is the borrower. For buildings without an HOA, the housing manager acts on behalf and on account of the owners. The manager takes the loan, but it belongs to the owners.

Today it seems that the housing management market in Slovakia works and that fees are mostly affordable. Low-income households are legally entitled to housing allowances.

A.5.3 Utility services

Compared with many poorer countries in the world, CEE and CIS countries have high levels of access to water and wastewater services. However, most of the water infrastructure in these countries was built between 1950 and the 1970s. After the 1970s, very little investment was made in service infrastructure, and that trend worsened after 1990.

Deterioration affects infrastructure for critical services such as water, sanitation and gas; general urban infrastructure; and regional transportation and communications infrastructure. The current stock of infrastructure is in an incipient -- if not already steep -- decline.

Since the early 2000s, the costs of providing services to households have risen in many CEE and CIS countries, making water and sanitation services unaffordable to many poor families.

Utility services are today organized in different ways. In many CIS countries, they are still mainly provided by the state, whereas in other countries municipalities or private companies take responsibility. Restructuring has taken place in various forms, including privatization, contracting out, and reorganizing the public service companies. These attempts typically resulted in increased costs and prices, while promised investments held off and hence the security of the supply did not improve. In many cases, the negative consequences have outweighed any gains in market efficiency.⁴⁰ The situation is often worsened as central and local governments under fiscal pressure had to cut subsidies that had earlier been given to public service providers.

Although access to services varies greatly by country, some regional trends do exist. For example, urban housing is generally much better equipped with utilities than is rural housing. Discrepancies between the two can be great. Within urban housing, access to water and electricity is more prevalent than access to sewerage and drainage, which is often discharged into open waterways and frequently contaminates water delivery.⁴¹

A specific challenge is the maintenance of district heating grids. In CIS countries, many urban areas were provided with district heating before transition. Many of these grids have collapsed since then or suffer from massive energy losses caused by long-term underinvestment. In Armenia, for example, the area served by district heating systems decreased by 70 percent between 1990 and 1999. This loss was compensated by a strong increase of gas networks in the early 2000s. This infrastructure is purely

commercially driven, with access immediately cut off when payment is delayed.

A.6 Housing legislation

Housing legislation was not a particular policy priority during transition. Nevertheless, housing-related legislation centered on three important areas: property rights, management of condominiums and mortgages/foreclosures.⁴² Condominium legislation was introduced in most ECA countries, but mostly after mass housing privatization. In many cases, this legislation was inadequate to the specific requirements of privatization. Social housing legislation and regulations on housing cooperatives are on the agenda in several countries, but have only partly been introduced. Rent legislation is mostly missing.

A.6.1 Condominium legislation

The sharp increase in owner-occupied housing resulting from mass privatization of formerly social rental housing made legislation necessary. ECA countries now possess a regulatory and institutional framework comparable to that of Western European countries, but enforcement is often lacking (Table 3).

Condominium legislation in ECA countries is characterized by several weaknesses, either in ruling or enforcement:

- Legislation was mostly introduced years after mass privatization. It was not obligatory in a number of countries to set up a legal entity such as a condominium or owners' association during the process of privatization,⁴³ and while the homes in multiunit buildings were privatized, the common part of the building and in some countries also the building land below remained under state or municipal ownership.⁴⁴

- Condominiums and owners' associations are mostly weak legal entities. Legal relations between the total of residents and the individual owner are unduly regulated. In many ECA countries, homeowners' associations have only scattered membership. But effective representation of the interests of all residents requires unanimous and obligatory membership in a common legal body (see Box 2).

⁴⁰ Charles Kendall / Eurasyllum 2009: 16; Council of Europe 2002: 13-14.

⁴¹ HfH 2005: 18; World Bank 2003: 48.

⁴² Tsenkova 2011: 26.

⁴³ Tsenkova 2011: 26.

⁴⁴ Hegedüs et al. 2012: 43.

■ Legal regulations in many cases had to follow facts established by earlier mass privatization. For this reason, regulations on ownership rights are stronger than those on ownership responsibilities. Because of the large number of poor owners and the lack of housing alternatives, regulations that impose consequences on those in arrears on their payment obligations to the owners' association (e.g., privileged liens) are mostly missing. Rules often require unanimous approval among residents for any building improvements or repairs. Given the number of poor owners within most buildings, this requirement has stifled most attempts at improving the condition of the buildings.

■ The weakness of owners' associations mainly concerns their responsibilities on commonly used parts of the buildings, such as structural elements, staircases or roofs (see Chapter A.5.1).

■ The terms of housing maintenance are regulated by different laws, but with similar weak enforcement, lacking clear responsibilities, minimum fees for management and maintenance, or regulations on reserve funds.

■ Regulations on ending common ownership in the case of deterioration are mostly missing.

■ Prepayments for new apartments are barely protected if the housing developer goes bankrupt (qualified tools would be bank guarantees or progress payment).

A.6.2 Rent legislation

In contrast with condominium or mortgage legislation, which was introduced with some priority in most ECA countries, there is still almost no rent legislation in place. In socialist times, rental housing was mostly synonymous with public rental housing, with the state providing consumer protection as politically agreed. An informal rental market was disavowed.

The loss of public rental housing with privatization has strongly increased informal rental housing in all transition countries. But despite rental housing's significance for providing housing for migrants to the cities and young households, most ECA countries have scarce information on quantity and price levels. Statistics refer mostly to the legal status of tenancy. Hence, informally rented private apartments are often recorded as owner-occupied dwellings. It may be estimated that 20 percent or more of the residents of typical urban areas live in informally rented apartments, depending on the attractiveness of cities for immigration.

Table 3 Condominium legislation in the ECA region, voluntariness of HOA

Source: HfH/IIBW survey, different sources.

Country	Condominium law	HOAs compulsory
Armenia	Law on Condominiums (2002, amendments)	no
Azerbaijan	No special legislation, but laws on Privatization (1993), on Mortgages (1998/2005), on Land Lease (1999) etc.	no
Bulgaria	Condominium Ownership Management Act (2009, amendments)	no
Georgia	Civil Code (1997), Law on Condominiums (2003)	no
Hungary	Condominium Law (2003, amendments)	yes
Kyrgyzstan	Law on Association of Homeowners (1997/2002)	no
Kazakhstan	Housing Relations Act (1997, amendments)	no
Macedonia	Law on Housing (1998), Ownership Law and Other Property Rights (2001)	yes
Poland	Law on dwellings ownership (1994, amendments)	yes
Romania	Housing Law (1996, amendments)	yes
Russia	Housing Code (2004)	no
Slovakia	Law on Ownership of Apartments and Non-Residential Premises (1993, amendments)	no
Tajikistan	Law about Maintenance of Blocks of Flats and Condominiums (2009)	no
Ukraine	Law on Condominiums (2001, amendments)	no

Rent regulations applied in the ECA countries

CEE countries

■ Hungary: For social rentals, the Act LXXVIII of 1993 on certain rules on the rent and privatization of dwellings applies. It defines three categories of public tenements — social, expenditure-based and market rental — and sets separate price mechanisms for the three. No such rules exist for private rentals.

■ Poland: The Law on the Protection of the Rights of Tenants and on Communal Housing Stock (2001, several amendments) applies. The law delegates the power of fixing maximum prices for rental dwellings for social rent to the local communities. The prices for market rents are not regulated. But such rental prices cannot be raised more than twice a year.

■ Slovakia: Regulation of apartment rental prices is provided by Ordinance of the Ministry of Construction and Regional Development (Notification No. 4/2004).

SEE countries

■ Bulgaria: There is no law on rental housing in force. The signed rental housing contracts are under regulations of Obligations and Contracts Law. Municipal rental housing is ruled by the Municipal Property Act (1996).

■ Macedonia: Rental housing is ruled by the Law on Obligations (2001), the Ownership Law (2001) and the Housing Law (2009).

■ Romania: The Law on the Protection of Tenants and Setting Rents for the Purpose of Housing (2001) stipulates for public and social housing maximum rents of 10 percent of the monthly net income.

CIS countries

■ Armenia: There are no rent regulations in place.

■ Azerbaijan: The government has no policy for developing the rental housing sector.

■ Kyrgyzstan: The Civil Code contains some regulations on rents, but no price regulations.

■ Russia: Relevant laws are the Housing Code (1983), the Law on the Fundamentals of Housing Policy (1993) and the Land Code (2001).

■ Tajikistan: Chapter 9 of the Housing Code (1997) regulates prices for social rents; these regulations also apply to market rents.

■ Ukraine: Rental housing is ruled with the Civil Code (2004). But there is no specific rent regulation in place.

Source: Habitat for Humanity/IIBW survey 2013.

In most transition countries, there is not much emphasis on regularizing informal rental sectors. There are different reasons for this. First, landlords oppose it. Apartments for rent are important investment opportunities in an economic environment with a limited supply of capital market investment products. Such business interests often have strong lobbies in politics and media. In other industries, well-established producers advocate for strict legal regulations or technical standards, as this may give them competitive advantages. In renting out single apartments, this argument does not seem to apply. Secondly, enforcing regularization is difficult. Policymakers may doubt whether the fiscal benefit exceeds the political costs. Thirdly, the informal rental market covers the needs of many poor households. Regularization would make such apartments more expensive. This would lead to additional state obligations to provide affordable accommodations for these groups.

On the other hand, efficient rent regulations may substantially contribute to the social and economic development of transition countries:

■ Regulations in terms of rent contracts, rights and obligations of the tenant and the lessor, termination of the contract, or terms of eviction are important aspects of consumer protection.

■ The effectiveness of price control regimes is disputed. On one hand, they may contribute to affordability. On the other hand, they distort market mechanisms. Several CEE countries, such as the Czech Republic and Slovakia, have maintained strict rent ceilings for old contracts, often in context with restitution. This led to extremely uneven conditions of tenants, with particular discrimination against young households and harsh tenant-landlord conflicts.⁴⁵

⁴⁵ Amann, Hegedüs, Lux & Springler 2012.

As a consequence, the Czech Republic phased out those regulations until 2012. Rent ceilings in public rental housing in several ECA countries have strongly fueled privatization, because those housing stocks could not cover the cost of maintenance. Rent setting seems legitimate, particularly for apartments that were built or transferred to private ownership with public support. This is particularly the case for privatized dwellings at giveaway prices.⁴⁶ Mechanisms to increase market transparency, such as the German comparative rent list, seem more effective than placing fixed caps on rent amounts. But they require highly developed markets with plenty of available statistical data.

■ Effective rent regulations may contribute to professionalism of the real estate sector, particularly regarding housing administration and maintenance.

■ Formal rental housing is an important investment opportunity in most Western countries.

■ Taxation of rents may evolve into important fiscal incomes.

■ Last but not least, the regularization of private rents is an indispensable precondition for establishing models of new rental housing construction, for example, with a public-private-partnership approach. Such models have to consider full capital costs plus costs for management and maintenance, and they can hardly compete with informal rents in the (privatized) existing housing stock unless they are excessively subsidized (such as new public housing construction in several CEE countries).

Rental markets in all transition countries are quite intransparent, with some very low rents in the residual public housing sector and quite high rents in parts of the private market (see Chapter B.4.2).

A.6.3 Social housing legislation

Social housing laws have been introduced in several countries of the ECA region, mainly defining beneficiaries of subsidized housing, conditions of social housing construction, and funding (see Box 3). The drivers for the establishment of social housing legislation included the EU Stability Pact for South Eastern Europe, which provided housing policy action plans for several countries in the region. In addition, the Council of Europe Development Bank, or CEB, has initiated social housing legislation, since this is one precondition for the bank's soft loans.

A.6.4 Mortgage legislation

Most countries in the ECA region have introduced mortgage legislation, which was a precondition for the upturn of mortgage financing products since the early 2000s (see Chapter B.5.5). One important aspect of mortgage legislation is the regulation of foreclosure procedures in the case of arrears. This is where a gap is detected between legislation and enforcement. Because of different customs and practices and conflicting regulations on the right of housing, such procedures are still untested in several countries, such as Romania.⁴⁷

A.6.5 Consumer protection in housing

Lack of consumer protections affects both rentals and owner-occupied housing. In the absence of legislation on private rentals in most ECA countries (see Box 3), most tenants on the private rental market have only contract regulations, if anything, to protect them.⁴⁸ Protection against eviction is critical for vulnerable households (see Chapter A.7). But an effective eviction policy also must protect landlords, owners' associations and financing institutions against tenants who fail to pay rents or owners in arrears. Both aspects seem unsolved in many ECA countries. For example, in Romania, tenants can be evicted only under an irrevocable court decision, but this rarely happens, as mayors try to avoid such practices because of their low popularity.⁴⁹

In the owner-occupied sector, the lack of legislation leads to an excessive amount of risk for purchasers who are inadequately protected in terms of completion of the property, timing of transfer or ultimate purchase price.⁵⁰ This is particularly risky when a housing developer declares bankruptcy before legally handing over the prepaid apartment. This is critical, as prepayment schemes are widespread, particularly in CIS countries. Because of high interest rates and underdeveloped financing schemes, housing developers try to avoid construction financing and offer prepaid apartments with a substantial discount. Only occasionally do housing companies provide bank guarantees to safeguard early payments.

In virtually none of the ECA countries have organizations for rent protection been established. In some cases, state authorities are entitled to protect interests of tenants against landlords.

⁴⁶ Amann & Mundt 2010b.

⁴⁷ Amann, Bejan & Mundt 2012.

⁴⁸ Amann, Hegedüs, Lux & Springler 2012.

⁴⁹ Amann, Bejan & Mundt 2012.

⁵⁰ Rabenhorst, Mihalache 2007: 27.

A.7 Housing vulnerability

A.7.1 Housing situation of refugees and IDPs

The general situation of refugees and IDPs in the ECA region is described in Chapter C.2.3. Wars and violence cause plenty of negative effects in terms of housing:

(1) A huge volume of housing and infrastructure is destroyed. Since 1991, approximately 1 million housing units all over Europe have been destroyed or badly damaged because of war.⁵¹ In the ongoing conflict in Ukraine, hundreds of houses and infrastructure buildings have been destroyed.

(2) War causes an exodus of people seeking safety, either in other parts of the same country (internally displaced persons, or IDPs) or in other countries (refugees).

(3) War affects construction and the institutional setting of a country. As seen in many examples, housing construction lags behind in warring countries even years after the conflicts. The same is true for housing maintenance and repair of the remaining housing stock.

(4) Impoverishment of big parts of the population renders even well-functioning housing markets unable to meet the need for housing.

(5) Violence in rural areas contributes to rapid urbanization and increases pressure on urban housing stocks, often expressed through the growth of informal settlements on the urban fringes.

(6) Displacement caused by violence impedes complicated property rights questions regarding housing.

Displaced people often build shack housing in informal settlements on the periphery of villages and cities, move in with relatives, stay in refugee camps provided by the international community, or crowd into abandoned apartment buildings or hotels. Basic services such as water and heat are often inaccessible for them. Many IDPs become trapped in protracted displacement.⁵²

The perspective of EU accession has motivated some European countries to develop sustainable solutions for IDPs in order to comply with EU human rights standards. In 2012, the Western Balkan countries Bosnia and Herzegovina, Croatia, Montenegro and Serbia, in cooperation with Organization for Security and Co-operation in Europe (OSCE), United Nations Commissioner for Refugees (UNHCR) and the EU Commission, initiated a regional housing program to provide housing solutions to 74,000 individuals with estimated investment costs of almost €600 million within a five-year period.

For the situation in Ukraine, a more detailed picture can be drawn. UNHCR has conducted a survey on the

housing situation of IDPs (6/2015; n=3,000), with the following main results:⁵³

■ Around 60 percent of IDPs live in rented apartments or houses, 4 out of 5 without a formal contract.

■ Costs for rented apartments are mostly quite moderate, with 70 percent of IDPs reporting rents of below €80 per month. This is far below the market rent in bigger cities. It can be explained that many IDPs have rented summer houses or apartments in rural areas or accept shared apartments. There are also cities in northern Ukraine with very low market prices. In some cities in northern Donetsk Oblast, rental apartments are available for the costs of utilities. The substantial increase of rental demand due to the IDP inflow has increased the market level of (informal) rental housing in most Ukrainian cities.

■ Around 20 percent of IDPs are hosted by friends or family members.

■ Only 10 percent are accommodated in collective centers. Those facilities are particularly affected by overcrowding (40 percent). Collective centers are mainly temporary shelters for IDPs, who should usually find other housing solutions after some time. Only some of the most vulnerable people depend on collective centers on a permanent basis. Many of them have been vulnerable and dependent on such institutions even before migration. Tenants are usually obliged to pay for utilities, which amount to €10-15 per month. But arrears are high.

■ The remaining IDPs are accommodated otherwise, such as in purchased apartments or hotels.

■ The vast majority of IDPs (80 percent) used to live in owner-occupied apartments before migration. Unfortunately, the housing markets in the conflict zone have basically collapsed. It is still possible to sell apartments, but at prices that are a fraction of what they were before the conflict. Hence, being the owner of an apartment in the city of origin doesn't help very much in purchasing an apartment in the new hometown.

■ It may seem reasonable to allocate such IDPs in rural areas, where costs of living are lower. But because of the lack of employment opportunities and medical infrastructure, along with limited mobility, most IDPs are reluctant to pursue such options. Experience from other countries shows that low-income and vulnerable households are particularly dependent on housing solutions in an urban environment.

⁵¹ HfH 2005: 37.

⁵² Council of Europe 2003: 5.

⁵³ Amann 2105c.

A.7.2 Roma housing

“Roma” refers to a heterogeneous, stratified, geographically and linguistically diversified ethnic minority in many countries. In ECA countries, the Roma population is estimated at 7 million to 9 million people, with the biggest shares of population in Romania (7 to 9 percent), Bulgaria and Slovakia. But the demographic and housing situation of the Roma population is also a challenge in Bosnia and Herzegovina, Hungary and Macedonia. Those and other European countries committed in the “Decade of Roma Inclusion 2005–2015” with housing as one of its priority areas (romadecade.org). Within this initiative, housing-related projects were realized in most mentioned countries. Although each country has its own characteristics, housing that fails to meet adequate living standards is a common issue facing many Roma in these countries.

The World Bank has called the Roma situation “the biggest challenge to poverty alleviation in Central and Eastern Europe.” The poverty of the Roma is closely related to housing, as Roma people often live in informal or illegal settlements on the outskirts of population centers. Housing quality in these settlements is substandard; services are few; and access to electricity, gas, water, sanitation and sewerage is limited. The Roma face a series of specific obstacles, including lack of information, restrictions and discriminatory criteria, which impede their access to social housing. A comprehensive analysis on Roma housing is provided by Berescu, et al. (2012) on case studies on Hungary, Romania and Serbia. The issue is widely unsolved in most ECA countries.⁵⁴ (see Chapter A.2.5).

A.8 Housing for elderly people

All countries worldwide are facing a rapidly aging society. In 2014, the worldwide share of people older than 60 is 15 percent. It will be 21 percent by 2030 and almost double that by 2050. Many Western countries already have shares of close to 30 percent. Some of the ECA countries documented in this report also have a particularly old population, particularly Bulgaria (27 percent 60 or older) and Hungary (24 percent, Figure 10). In contrast with Western countries, this is primarily not because of growing life expectancy, but because of strong emigration of the younger population strata in past years. The average of ECA countries is 19 percent, with most of them above the world average, but with Central Asian and some Caucasus countries below.

By 2030 — in only 15 years — the ECA average will be at 23 percent, and by 2050 it will be at 30 percent. According to current forecasts, more than one-third of the population

by that time will be above 60 years in all CEE and SEE countries, but not in the CIS region. Even though in the latter the absolute level of elderly population will remain lower, the amount of increase will be higher. In countries such as Azerbaijan, Tajikistan or Kyrgyzstan, the share will almost triple.

In some ECA countries, such as Russia, life expectancy has dramatically decreased during transition. The change of mainstream ideology has strongly affected those socialized in the communist era. People who were in their 40s or older when socialist regimes collapsed had severe hardship to integrate into the new labor market conditions. A huge portion of the population was excluded from the official workforce and have resigned their attempts to return. Transition of labor markets and welfare regimes were particularly discriminatory for those who are elderly today. They face low, insecure and often informal incomes and pensions with a much lower purchase power compared with those before transition. Whereas the 50 and older generation in many Western countries is one of the wealthiest strata in society, the opposite is true in all transition countries. This generation is definitely the loser of transition.

Hardship for this group was relieved by several pragmatic measures. The most important was housing privatization, which particularly benefited this group. Still, being poor, most of them have severe difficulties in maintaining their property. Inflation in the cost of utility services, particularly energy, is also a heavy burden to many elderly people.

In many countries, elderly people still have access to low-cost medical care and other privileges, such as reduced tariffs for utilities or public transport free of charge. Family bonds and support from the younger generation have become increasingly important. Many elder families have retired to old cottages far from the cities and make their living as self-sufficient farmers on a very low standard of accommodation. Elderly people living alone particularly experience poverty.

Whereas the elder population stratum is an important clientel in real estate markets in Western countries, this is different in most ECA countries. There is hardly any supply of homes for the elderly, particularly those with low or moderate incomes. New construction of homes for the elderly is at a very low level. Hence, “aging in place” seems to be the prevalent strategy to serve the elderly. This requires retrofitting existing structural features and providing community support systems.⁵⁵ Social services targeting elderly people, such as “meals on wheels” or mobile medical care, are also poorly developed.

⁵⁴ ERRC 2010; Molnár, et al. 2012.

⁵⁵ Hamilton, 2013.

A.9 Institutional setting

A.9.1 Decentralization of housing policy

In many transition countries, reorganization of state authorities led to a shift of responsibility for housing policy to the municipalities. This shift of authority was driven by the idea that social policy would work more effectively if allocated close to the citizens. In terms of housing policy, decentralization concerned housing privatization, maintenance and new social housing construction, but local governments were seldom adequately prepared to assume these responsibilities. Privatization was mainly driven by the interest to get rid of costly obligations. It was almost never intended to be used to acquire funds for new social housing construction. There was a fear among small municipalities that their social housing programs would lead to immigration of poor people from other municipalities, which would increase social tensions. Small local governments thus tended to “export” problems to other places rather than solve them. This “paradox of decentralization” especially hurt people in very acute housing need, such as the homeless or Roma households. Basically, decentralization meant empowering local authorities with supplementary tasks without providing them appropriate financial means.⁵⁶

In transition countries, the typical social landlords are the public management companies owned by the municipalities. Their financial sustainability depends on the rent policy of a country, which is governed either on the national level or the local level (for example, in Hungary), along with maintenance and operation schemes.

In most CEE and a few SEE and CIS countries, decentralization and responsibility for social housing construction were accompanied by the establishment of state housing funds or similar institutions providing subsidy programs for municipal housing construction (see Chapter B.5.4). But in many other countries, decentralization did not go hand in hand with respective allocation of funds. Municipalities are in many cases disinterested in expanding social housing, as the fiscal burden of new social rental housing competes with other municipal responsibilities, such as education, health and infrastructure.

For social housing programs, the central governments typically impose certain conditions in terms of rent setting, allocation and construction. Maximum rents are defined either as percentage of the “replacement value” (as in Poland) or on the basis of cost-coverage (as in Hungary), or they were linked to the disposable family income (as in Romania). The actual rents are set by the local governments and are often below the defined limit, since local governments are uncertain about the tenants’ ability to pay.⁵⁷

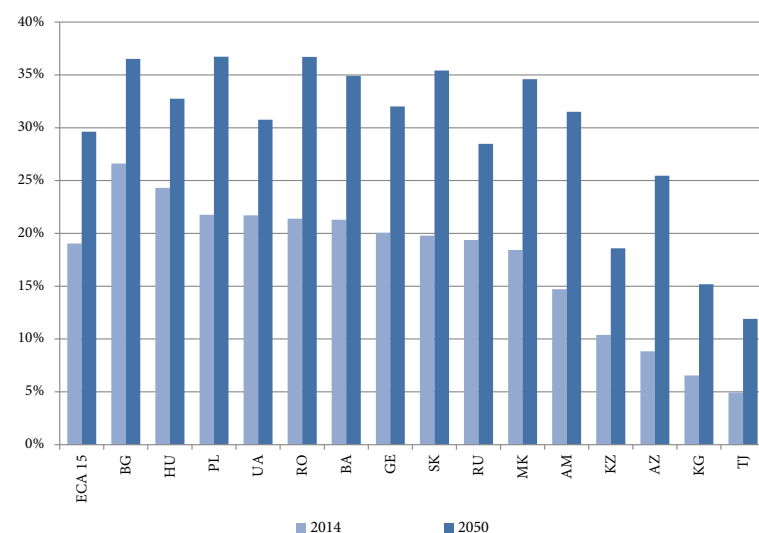
⁵⁶ UNECE, 2001: 52; Amann/Komendantova, 2010; Amann, Hegedüs, Lux & Springler 2012.

⁵⁷ Amann, Hegedüs, Lux & Springler 2012.

Figure 10 Aging of population in the ECA region (% of population over 60)

Re.: Succession according to share 2014, descending.
Sums are weighted with total population 2014.

Source: Global Age Watch Index 2014, IIBW



A.9.2 Housing cooperatives

Housing cooperatives were important institutions in several ECA countries. But in many cases the originally strong participation of tenants in such grassroots organizations was erased by the mid-20th century when such cooperatives were transferred to state ownership under communist rule. In several countries, these cooperatives developed in socialist times to become major providers of affordable housing. After the fall of the communist regimes, cooperative housing was subject to privatization to the sitting tenants. The models of privatization varied considerably (see Chapter A.3.3), but the results of the cooperatives were similar. With few exceptions (including Poland), rent-oriented cooperatives disappeared and ownership-oriented cooperatives basically transformed to housing management organizations. Today, the remaining cooperative housing is therefore dedicated either to social rental or owner-occupied housing. This causes some difficulties in identifying ownership rates (see Figure 1).

Cooperatives did not recover as producers of new affordable housing -- rental or owner-occupied -- in any ECA country. The manifold trials to revive this sector failed despite substantial international support.

The year 2012 was declared the United Nations International Year of Cooperatives. In several countries, new housing cooperative legislation was introduced, e.g., in Hungary (2004), Poland (2000), Russia (2004) and Kyrgyzstan (2004). The reasons for failure require further investigation. Ownership-oriented cooperative housing probably is not distinguished clearly enough from commercial owner-occupied housing. Rent-oriented cooperative housing, on the other hand, requires substantial subsidies to flourish. But adequate subsidy programs are nowhere in place.⁵⁸

A.9.3 Public-private partnership models on affordable housing

UN-HABITAT published a study in 2011 on PPP approaches in housing and urban development, but even though it emphasized the big number of PPP investments in “almost all countries around the world,”⁵⁹ very few concrete PPP housing models are described in particular, and none in transition countries.

Nonprofit or limited-profit housing associations play a major role in affordable housing provision in many countries in Asia, in Western and Northern Europe, and in America, with very good financing conditions from owner equity, sector guarantee funds, subsidies and the capital market. Examples are the Dutch Woningcorporaties; the Austrian Limited Profit Housing Associations, or LPHA;

the French Housing at Moderated Rents, or HLM; the Swedish municipal housing companies; and programs in UK, China, India, Malaysia and Canada.

It is difficult to explain why hardly any model with similar economic sustainability could be introduced in an ECA country 25 years after transition. The introduction of such schemes in the West after World War II was characterized by a strong commitment from the public, both institutional and financial. Up to that time, the markets were not able to provide sufficient quantities of housing. Today, the higher capacities of the markets function as though other allocation schemes are unnecessary. Obviously, this is not the case. Market allocation cannot satisfy all housing needs, particularly the need for affordable and rental housing.

There were several attempts, most of them supported by European donor organizations, to establish new nonprofit or limited-profit associations to provide apartments for rent. The most successful attempt in the early years of transition was Poland's TBS (housing association) program, which was based on the French HLM model. The rents for TBS housing were set by the municipal councils but could not be higher than 4 percent of the construction cost per year (replacement value). The program was not exclusively aimed at lower-income groups. Because the 30 percent down payment was provided by the tenants, selection followed their ability to pay. Consequently, the tenants considered themselves quasi-owners. This led to criticism of the program because of its insufficient social targeting and excessive public costs. The total volume of the TBS program amounted to 10 percent of total housing construction in 2001, but it has since expired.

Slovakia tried to implement a limited-profit housing sector with a Law on Non-Profit Organizations and a cooperation with the Netherlands' Matra grant program. Subsidies and tax benefits apply only to housing associations predominantly owned by municipalities, tightened with excessive control mechanisms and very low building cost caps. Implementation proved difficult. Consequently, only two associations with altogether quite limited activities have been founded. In the early 2010s, a limited-profit housing association in Armenia was established through a similar cooperation with the Dutch social housing sector.

⁵⁸ Amann & Mundt 2011: 95.

⁵⁹ UN-HABITAT 2011, 2.

In the former Yugoslavia, affordable housing provision was organized with Solidarity Funds for Housing Construction. Enterprises, institutions and state bodies were legally required to collect a percentage of salaries to provide housing for employees. But in 2001, the legal basis for these funds was abolished, and social housing development organizations ceased to exist. In Serbia, some of these funds were transformed into municipal housing agencies, which are regarded as the basic implements of a future social housing system, as defined by the Social Housing Law of 2008. In the framework of the UN-HABITAT-granted Settlement and Integration of Refugees Programme, or SIRP, such agencies established more than 500 low-rent dwellings for vulnerable households with highly subsidized loans on a nonprofit basis, but the program ceased in 2009. In Montenegro, a Fund for Solidarity Housing Development, or CFSSI, was re-established in 2008 on a not-for-profit basis in a social partnership approach, with the government, the trade unions and the federation of employers as shareholders. CFSSI mainly provides affordable owner-occupied dwellings. The attempt to also start with rent and leasing schemes, supported by Dutch International Guaranties for Housing, failed to succeed.⁶⁰

Other attempts to establish public-private partnerships in affordable housing construction were established in Russia by the Agency for Housing Mortgage Lending. Currently, new approaches are evolving in Ukraine and Kazakhstan, trying to expand good practice from other fields of urban technologies to housing.

After the boom phase of housing markets until 2008, housing developers increasingly re-oriented their supply of owner-occupied apartments to moderate income demand. In some cases, e.g., Armenia, this was supported by state programs on financing addressing moderate-income and young households. But such initiatives cannot really be classified as PPP.

The re-establishment of affordable rental housing sectors with partnership models between public and private entities is returning to the political agenda in several transition countries.

⁶⁰ Amann, Hegedüs, Lux & Springler 2012; Amann & Lawson 2012; Czischke 2009; Tsenkova 2005; World Bank 2006.

Housing construction in Europe and Central Asia

Some countries, such as Hungary and Bulgaria (pictured), had developed quite well before the global financial crisis but have since suffered from steep decreases in production of housing (with signs of recovery in Bulgaria).

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Ezra Millstein



B

Housing Construction, Markets, Housing Finance

B.1 New developments since 2013

During the two years since the publication of the 2013 Habitat for Humanity Housing Review, the following main changes and trends in housing construction for residential markets have been identified:

■ The development of new construction varies among countries in the ECA region. Some countries with strong economic development have rising construction rates that exceed the EU average, while others have stagnant rates with no new multi-apartment residential developments. Russia, in particular, experienced a rapid rise in construction output, with more than 1.1 million dwellings completed each year since 2013. By contrast, countries such as Hungary, Bosnia and Herzegovina, Armenia and Georgia continued to have extremely low construction rates.

■ Social housing construction is well-established in a number of ECA countries, including Slovakia, Poland, Romania and Russia. In other countries, no new construction is taking place. In addition, definitions of social housing remain inconsistent throughout the region. Housing solutions for low-income groups increasingly include ownership. Several CIS countries do have public rental housing, but continue privatization, selling apartments significantly below market prices.

■ Since 2013, governments increasingly understand the significance of residential construction for overall economic development. The construction and real estate industry contribute significantly to the GDP in most ECA countries.

■ Housing supply increasingly now targets not only the upscale market, but also households with moderate incomes. This is reflected in reduced construction costs, stagnating house prices and a trend to smaller apartments.

■ Housing markets in metropolitan regions in ECA countries skyrocketed prior to the Global Financial Crisis of 2008. The following slump was in many regions continued by stagnation or further decrease of house prices. To date, only a few ECA countries have increased residential market prices.

■ In most transition countries, the reaction of the financing industry to the Global Financial Crisis was much fiercer than in the West, with in some cases prohibitively high interest rates and low loan-to-value ratios. Today interest rates in most CEE and SEE countries are favorable for purchasing, but rates remain prohibitively high in CIS countries, at 12 percent.

■ Mortgage financing developed rapidly in ECA countries until 2008. Since then, regional situations have diverged. In most CEE countries, outstanding mortgage loans amount to around 20 percent of GDP. In the SEE region, it is below 10 percent, and in CIS countries it is below 4 percent. This is compared with more than 50 percent on average in the EU. In countries such as Hungary or Ukraine, mortgage financing has decreased dramatically. In other countries, such as Slovakia and Poland, and to a lesser extent Romania and Russia, mortgage financing continues to grow.

■ Social housing finance has recovered in several ECA countries since 2013. A long-term strategy was implemented that included the establishment of housing agencies, housing funds or mortgage agencies in a number of ECA countries. Additionally, a variety of financing schemes, application, processes, ownership structures and quality assurance schemes were developed.

■ Many ECA countries continue to have a poor performance effectively administering and managing construction compliance processes. The World Bank Doing Business Index on construction permits and the Transparency International Corruption Perception Index offer detailed evaluations of national construction sectors. This mainly concerns the CIS and the SEE region. Only half of these countries have improved their ranking in these indexes within the past five years; some even moved down. The good news is that there are examples of how to change this situation. For example, Georgia has improved its rank in both indexes tremendously because of a radical change in public administration procedures.

B.2 Housing construction

B.2.1 Downturn of construction output during transition

For most transition countries, the first decade after transition could be characterized as a deep housing crisis. This became evident as new housing construction decreased sharply. Housing completions dropped in some countries (for example, Russia) by more than 40 percent, in most CEE countries by 70 to 80 percent, and in less-developed SEE and CIS countries by up to 90 percent. In most transition countries, the indicator of housing completions per 1,000 inhabitants fell from above 5.0 (which was similar to or even above the EU average) to close to 1.0 (see Figure 12 to Figure 15).

Housing construction has developed impressively in most CEE countries (except Hungary) since the early 2000s, as shown in Figure 12.

In terms of completed dwellings per 1,000 inhabitants, some CEE (Poland, Slovakia) and CIS countries (Kazakhstan, Russia) have meanwhile exceeded the European average ("Euroconstruct" countries include 17 EU countries plus Switzerland and Norway), but others are still far below.

For several countries (SEE region and some CIS countries), official data on housing construction are only partly meaningful. In some of those countries, informal construction still has not been stopped¹ (see Chapter A.2.5). "Completion" of a dwelling means something different than it does in Western countries. To leave a building shell unfinished until new liquidity comes along seems quite normal. During transition, housing construction was started but then stopped time and again if the economic situation changed.² In some Caucasus countries, it is still accepted practice to never officially complete construction for tax reasons.³ Multiapartment buildings are often started with insufficient owner equity and without bank financing, but mainly with prepayments of future owners. This led to numerous unfinished constructions in many cities of the ECA region in the course of the Global Financial Crisis.

B.2.2 Current development

The Global Financial Crisis has hit the construction industry in several Western countries hard, with decreases of up to 90 percent in Ireland and Spain. In the total of all Euroconstruct countries, the rate was cut in half, from 5.6 completed dwellings per 1,000 inhabitants in 2007 to only 2.8 in 2013, with expected stagnation on this low level (but growing significance of housing refurbishment). Even though most ECA countries were also heavily affected by the crisis, the construction output in the residential sector performed quite differently:

a) Even before the crisis, several countries on a general low economic level — Bosnia and Herzegovina, Kyrgyzstan, Armenia and Georgia — had such a low level of new construction (aside from short boom periods in the capital cities) that the crisis could hardly depress it further. Even so, some of them have been able to increase their construction rate considerably since then.

b) Some countries, such as Hungary and Bulgaria, had developed quite well before the crisis but have since suffered from steep decreases in production (with signs of recovery in Bulgaria).

c) In the majority of countries, where housing construction had developed to a moderate level before the crisis, the output fell in the years after, but has recovered again on a basically stable level. This group includes higher-performing countries such as Poland, Slovakia and Kazakhstan, along with countries with moderate housing output, such as Romania, Azerbaijan, Ukraine (until 2013) and Tajikistan.

d) Some economies focus on housing construction as a key measure for economic recovery and hence have increased housing output strongly. Among the ECA countries, this is particularly true of Russia, with a construction rate (completed dwellings per 1,000 inhabitants) that has tripled since the early 2000s and exceeds the European average by 170 percent (Figure 14).

¹Tsenkova, 2009.

²Gevorgyan & Hirche 2006: 20.

³Charles Kendall / Eurasylum 2009: 14.

Figure 11
Housing completions per 1,000 inhabitants
in ECA countries

Re. Europe = "Euroconstruct" countries =
17 EU countries + Switzerland + Norway

Sources: National Statistical Offices,
Euroconstruct, EECFA, IIBW

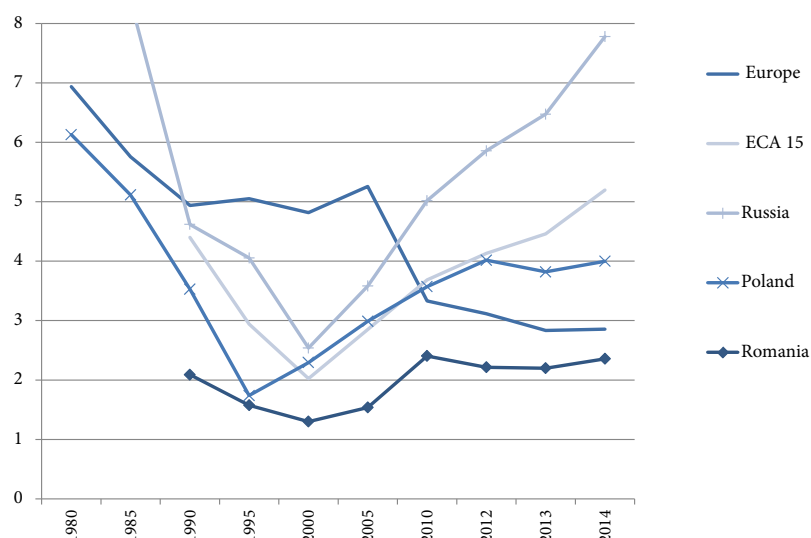


Figure 12
Housing completions per 1,000 inhabitants
in CEE countries

Re. Europe = "Euroconstruct" countries =
17 EU countries + Switzerland + Norway

Sources: Euroconstruct, IIBW

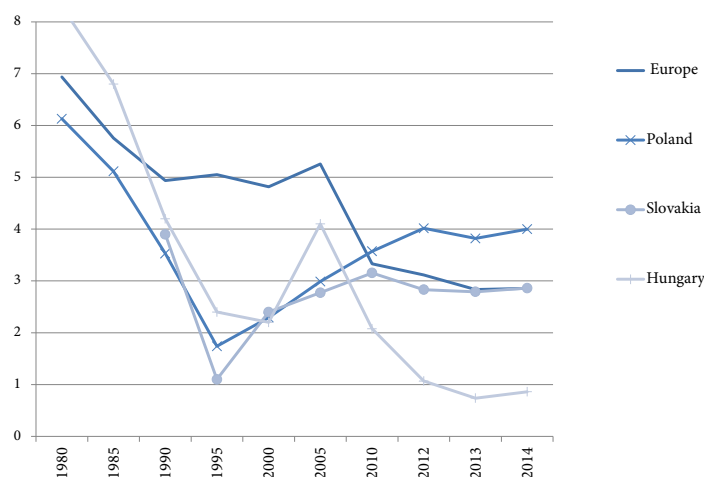


Figure 13
Housing completions per 1,000 inhabitants
in SEE countries

Re. Europe = "Euroconstruct" countries =
17 EU countries + Switzerland + Norway

Sources: National Statistical Offices,
Euroconstruct, EECFA, IIBW

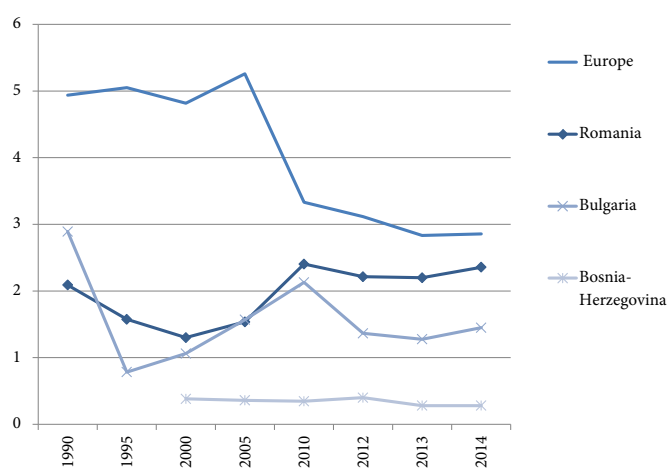
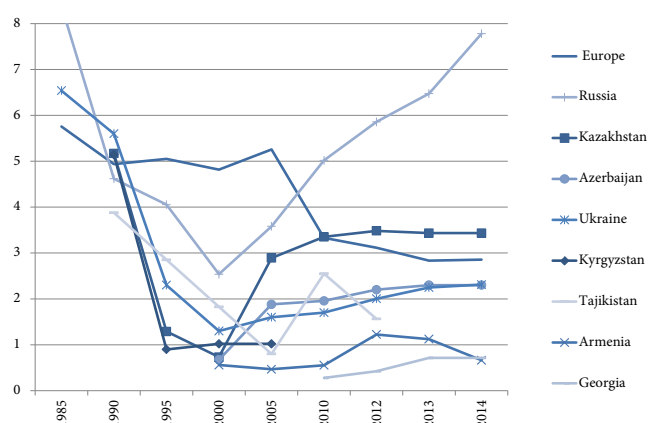


Figure 14
Housing completions per 1,000 inhabitants
in CIS countries

Re. Europe = "Euroconstruct" countries =
17 EU countries + Switzerland + Norway

Sources: National Statistical Offices,
Euroconstruct, EECFA, IIBW



Altogether, the housing construction output differs greatly among the ECA countries, from still far below one housing completion in Bosnia and Herzegovina, Armenia, Georgia and Hungary, to almost eight in Russia (Figure 15).

Figure 15
Housing completions per 1,000 inhabitants,
2014

Re.: Sum ECA 15 weighted with GDP.

Sources: National Statistical Offices,
Euroconstruct, EECFA, IIBW

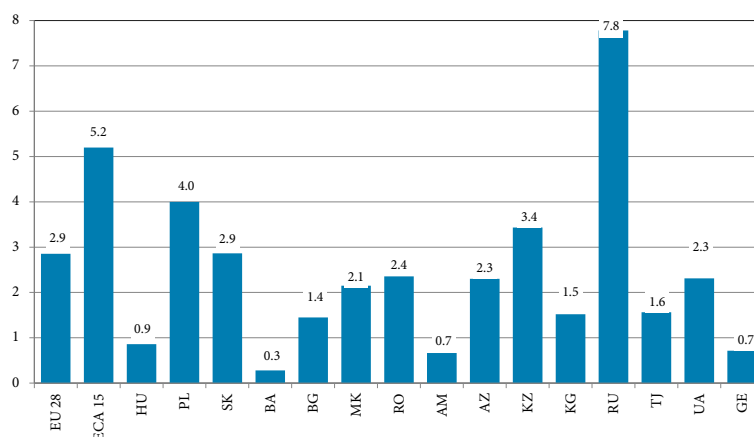


Table 4 Housing construction in the ECA region 2014

Re. Data are mostly from 2014 but in a few cases are older.

“Euroconstruct” countries = 17 EU countries + Switzerland + Norway

Sources: National Statistical Offices, Euroconstruct, EECFA, IIBW

Country	Housing permits total (1,000 units)	Housing completions (1,000 units)	% social dwellings of completions	Housing permits (1,000 inh.)	Housing completions (1,000 inh.)	Ø size of completed apartments
EU28	1,495	1,334		3.2	2.9	
ECA15		1,568			5.2	
CEE Countries						
Hungary	8.5	8.5	1%	0.9	0.9	
Poland	157	152	4%	4.1	4.0	
Slovakia	13.2	15.5	15%	2.4	2.9	
SEE Countries						
Bosnia and Herzegovina		1.1			0.3	50 m ²
Bulgaria	13.8	10.5		1.7	1.4	77 m ²
Macedonia		4.4			2.1	92 m ²
Romania	55.5	46.6	6%	2.8	2.4	
CIS Countries						
Armenia		2.0			0.7	
Azerbaijan		21.1			2.3	114 m ²
Kazakhstan		58.5			3.4	103 m ²
Kyrgyzstan	0.6	8.7		0.1	1.5	104 m ²
Russia		1,118	7%	5.2	7.8	75 m ²
Tajikistan		12.5			1.6	
Ukraine	124	105		2.7	2.3	101 m ²
Other countries						
Georgia	5.2	3.2		0.7	0.7	

B.2.3 Economic significance of construction and real estate sectors

Construction and real estate are very important industries all over the world. In the EU average, construction contributes 5 percent to total GDP, while real estate contributes 10 percent. Economic structure differs quite a lot among the ECA countries. Despite housing completions below the EU average, the construction sector has higher significance in almost all of them. It represents more than 10 percent in Azerbaijan, Armenia and Tajikistan. This is mainly because of the smaller significance of other sectors, particularly industry, but also because of investments in infrastructure. But as seen in Figure 1 to Figure 5, residential construction also has an important and stable role in some of those countries. By contrast, residential refurbishment is an also-ran.

The significance of real estate in most ECA countries is far below the EU average, with the exception of Russia, because of the current extraordinary housing boom.

B.2.4 “Doing business” and corruption perception index

For a number of years, the World Bank has published a worldwide ranking of “doing business” indicators. One section is dedicated to housing construction, combining the days required to get a construction permit and the number of procedures. Figure 7 shows the results for the ECA region. Within a total sample of more than 180 countries (2014), 6 of the 15 ECA countries range in the lowest third (ranked 135 or worse). Among those

very badly ranked countries are Poland (135), Romania (139) and Russia (172). By contrast, Georgia (ranked 3) and Kyrgyzstan (49) perform very well. Only around half of ECA countries have improved their rank in the past five years, among them Ukraine, Macedonia, Poland, Bulgaria, Russia and Georgia.

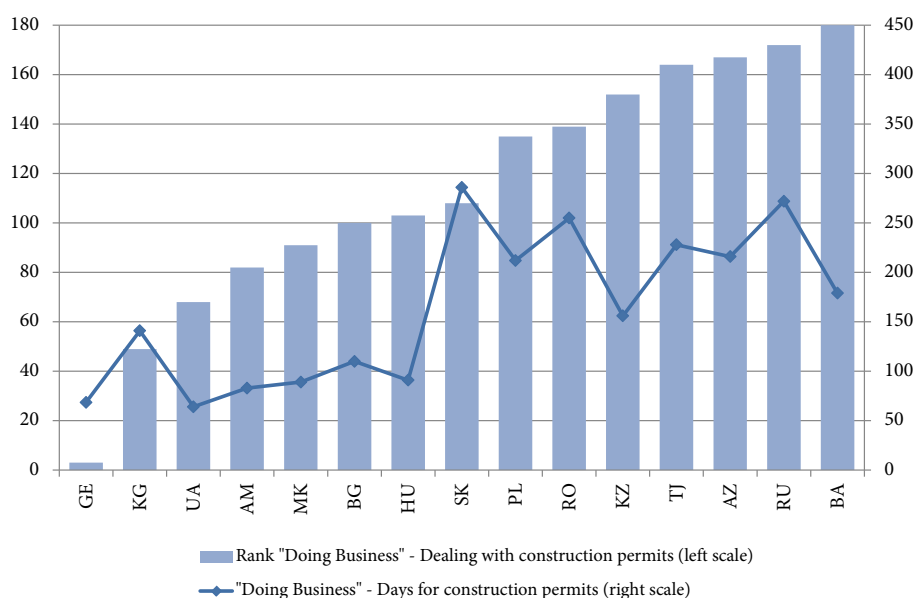
Despite the inconsistency of such rankings, the “doing business” database gives a clear assessment of lessons to learn. It is not only about simplicity of procedures to get building permits, but also about compliance of public administration and likelihood of being confronted with corruption.

Corruption in politics and public administration is difficult to assess. Everybody knows about it, but nobody can give clear and comparable numbers. As a way out, the nongovernmental organization Transparency International has developed a revolving survey addressing the subjective perception of stakeholders of the level of corruption in a country. This goes beyond construction to include zoning, building permits and public procurement as some of the procedures most prone to corruption.

Similar to the “Doing Business” indicator, 6 of the 15 ECA countries documented in this report range in the lowest third of a total of 174 countries (2014), among them Tajikistan, Ukraine, Russia, Kyrgyzstan and Azerbaijan (Figure 8). Besides Azerbaijan, all of them have worsened in the past decade. Five of the ECA countries range in the best third: Poland (rank 35), Hungary (47), Georgia (50), Slovakia (54) and Macedonia (64).

Figure 16
World Bank “doing business” ranking
dealing with construction permits, 2014

Source: World Bank, IIBW



Some of them made great progress in fighting corruption, particularly Georgia, which improved by not less than 80 ranks within one decade, while Macedonia and Poland improved by 35 and 39 ranks, respectively.

Together with the “doing business” indicator, the Corruption Perception Index indicates successful strategies to improve effectiveness of politics and public administration. It requires clear and simple rules, a reduced number of procedures and involved people, transparency, automation (electronic administration), decent salaries of civil servants, but most of all a change of culture that makes taking bribes a nontrivial offence.

B.2.5 Quality standards of new apartments

Quality standards of new construction differ widely throughout the ECA region. But altogether, new construction, as mostly targeted to the upscale market, has much higher quality standards than the existing housing stock. Quality standards have been raised because of a strong engagement of international real estate developers and investors coming from Western Europe, Russia, Israel, USA, Kazakhstan, Turkey or China. Standards also have risen because building products of sufficient quality and quite low prices are coming from China and Southeast Asian countries. On the other hand, it is becoming increasingly difficult to realize high-quality standards in construction in many ECA countries because education in crafts is lagging behind, and many expert workers have emigrated.

Energy efficiency of new construction is generally improving (see Chapter A.2.3). But considering the very long life span of buildings, present efforts are highly insufficient.

Standards of finishing also are quite diverse. In countries with well-established real estate markets, most new apartments are offered turn-key. In countries with less-developed markets, housing developers offer mainly shells and cores, leaving the responsibility for finishing the home to the buyers, which often leads to questionable quality standards.

B.2.6 Demand for housing

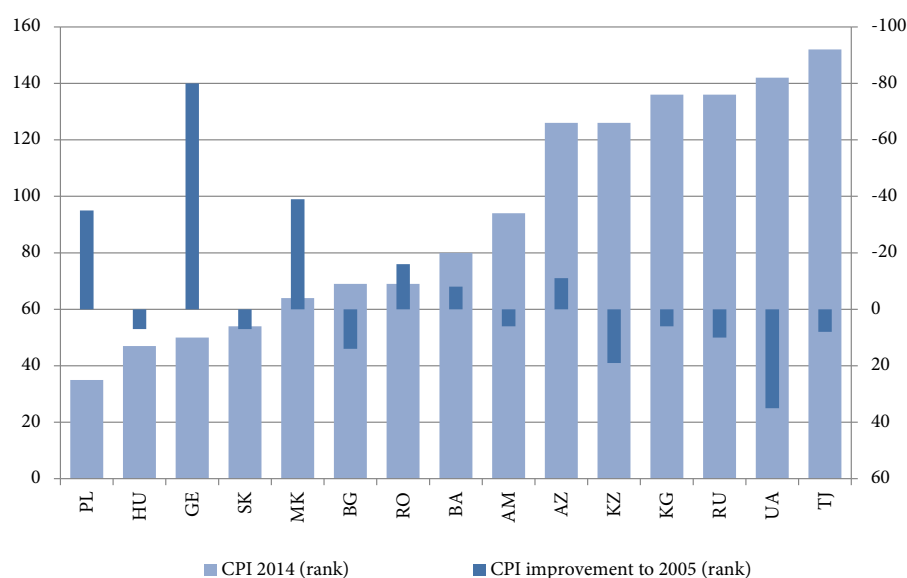
Until a few years ago, the need to increase new construction was regarded as low for many ECA countries. In Armenia, for example, UNECE has detected no shortage of housing, because of the drop in population.⁴ This assessment has changed. Demographic development has stabilized in most ECA countries (see Chapter C.1). But the vacant housing supply is not in places of demand, and urbanization is expected to increase again.⁵ Moreover, a growing part of the existing housing stock has deteriorated to the extent that replacement seems more reasonable than refurbishment. Hence, demand for housing is huge in all metropolitan areas of the ECA region.

⁴ UNECE 2004: 12.

⁵ Chiquier/Lea 2009: 6.

Figure 17
Corruption Perception Index

Source: Transparency International, IIBW



But concrete numbers of housing demand are documented for only a few of the ECA countries. Some CIS countries still run the Soviet time scheme of waiting lists for social housing. Following this, housing demand amounts to 2.5 million apartments in Russia, to more than 1 million in Ukraine and to around 400,000 in Kazakhstan. But these numbers do not consider middle- and upper-class households, which do not draw on social housing or subsidies.

Taking the substantial backlog in new construction for the past two decades and huge regional disparities, housing construction rates in basically all ECA countries should be raised to at least five completions per 1,000 inhabitants per year. Today this level is reached only by Russia (see Figure 15).

B.3 Social housing construction

Housing policy in the ECA region has headed quite clearly for market housing construction. Nevertheless, social housing construction has begun to recover in several countries. Even though social housing in most countries does not have the significance it has in some Western European countries, it seems to be reviving.

In Slovakia, the share of social housing in new construction is as high as 15 percent, but in other CEE countries it is much lower, with 4 percent in Poland and even less in Hungary (2011). In many CIS countries, public housing is on a steadily high level of some 10 percent of total new construction, e.g., in Russia, Armenia, Azerbaijan, Kazakhstan and Kyrgyzstan (2013).

But data on social housing construction are quite inconsistent. The years of survey are less current than in most other figures. There is no clear definition of social housing, neither regarding the target groups (only vulnerable households or including moderate-income groups) nor tenure. In many cases, public authorities targeting social issues are reluctant to produce social rental housing but prefer to provide low-cost owner-occupied housing.

There are various models in place for low-cost owner-occupied housing. The Council of Europe Development Bank (CEB, Paris) is specialized in such programs, e.g., in the Western Balkans. Many countries and municipalities have introduced financing schemes for specific target groups, such as young families or key workers. The capital city of Georgia, Tbilisi, has launched a purchase guarantee programme for commercial housing at below own-cost prices, and succeeded in dampening market prices to become affordable for moderate-income households.

For many CIS countries, a paradox applies: Today, public housing is still privatized at below-market prices, while substantial public funds are invested in new public housing construction. Nevertheless, the existing programs for new public housing construction are in all cases too small to substantially increase the share of affordable rental housing over time.⁶

In many ECA countries, commercial housing developers increasingly target low-income households. They minimize construction costs not only by standardized planning and cheap construction products, but also increasingly by small and very small floor space. In some places, this market segment is called “social housing.” A successful commercial housing product in Kharkiv/Ukraine (Vorobyovy Gory / Sparrow Hills) offers apartments with less than 20 square meters usable floor space for less than €10,000 per unit core and shell.

Social housing construction in the ECA region relies mostly on municipal housing and housing organized by state housing agencies or funds. Such financing institutions play an important role in the social housing construction of many transition countries (see Chapter A.5.4).

B.4 Housing markets

B.4.1 Owner-occupied apartments

Between the early 2000s and the Global Financial Crisis in 2008, the favorable macroeconomic conditions fueled demand for housing in all ECA countries. With effective mortgage legislation, moderate interest rates and the willingness of banks to accept high loan-to-value ratios, many people could afford to own property. Growing demand not only stimulated production capacities, but also inflated the price of housing.⁷

Market prices in metropolitan regions of all ECA countries skyrocketed, in most cases reaching a peak in early 2008. Prices for new condominium dwellings rose in cities like Bratislava, Kiev, Warsaw or Moscow to levels above Western European capital cities, despite much lower incomes of domestic customers and often lower standards of fixtures and fittings. In some capital cities, the prices of used apartments even exceeded those of newly built ones, mainly because of the better location and appreciated construction quality of old buildings.

⁶ Amann & Mundt 2011: 95.

⁷ Roy, 2008: 152; Amann 2009: 25.

Average house prices for new apartments in the peak years (2007-10) in the capital cities of the ECA countries documented in this report are €4,000 per square meter in Moscow, €2,560 per square meter in Warsaw, €2,310 per square meter in Kiev, €1,970 per square meter in Bratislava, €1,660 per square meter in Budapest, €1,590 per square meter in Yerevan, €1,420 per square meter in Bucharest, €1,300 per square meter in Tbilisi, €1,280 per square meter in Sofia, €1,200 per square meter in Dushanbe, €1,140 per square meter in Astana, €1,040 per square meter in Skopje, and €690 per square meter in Bishkek. After the hype, prices dropped in most markets (e.g., in Warsaw, Budapest, Yerevan, Astana) by one-quarter, but by around 40 percent in Sofia and by more than half in Kiev. Moscow experienced a temporary, slight decrease of prices.⁸ Meanwhile, housing markets have stabilized, but in most ECA countries they remain below the pre-2008 level. Only in a few countries, including Russia, do prices exceed the pre-crisis level.

For a limited number of countries, data on house prices are available on a national level (Table 5). Their levels are generally significantly below those of the capital cities, but with similar dynamics. After the Global Financial Crisis, Eurostat introduced a House Price Index for all member countries. In the EU average, prices have basically stagnated since 2010. But the situation differs a lot between countries in economic depression with, for example, -20 percent between 2010 and 2014 in Romania

and Croatia, and others with a new house price boom of up to 30 percent, such as in some Baltic States. Most ECA countries documented in this report, except Romania, have slightly decreasing house prices in national average between 2010 and 2014, from -8 percent for Bulgaria to -2 percent for Slovakia. Outside the EU House Price Index national average, data could be gathered for Bosnia and Herzegovina and Kazakhstan. The former shows moderately decreasing house prices similar to Bulgaria or Hungary, but Kazakhstan experiences a house price boom, with an increase of almost 30 percent within four years.

⁸ Different sources, IIBW/HfH 2013.

Table 5 Housing markets in the ECA region 2014

Re. Data are mostly from 2013/14, but in a few cases are older.
House price index for member countries from Eurostat, for others from National Statistical Offices.
Sources: Eurostat, National Statistical Offices, EMF Hypostat.

Country	(EU)-House prices index (2010 = 100)	House prices nat. ø (€/m ²)	Housing transactions (% of stock p.a.)	LTV (new mortgage loans)
EU28	99.5			
CEE Countries				
Hungary	94.2		1.8%	50%
Poland		924 €/m ²		
Slovakia	98.1	1,307 €/m ²		70%
SEE Countries				
Bosnia and Herzegovina	93.0	747 €/m ²		
Bulgaria	91.9	453 €/m ²		70-80%
Romania	78.2		5.5%	
CIS Countries				
Armenia			2.2%	70%
Kazakhstan	127.9	1,020 €/m ²	2.7%	75-85%
Russia		1,188 €/m ²	5.8%	

B.4.2 Rental housing markets

Rental markets are quite intransparent in all transition countries (see Chapter A.6.2). Hardly any reliable statistics are available, particularly for the large informal rental sector. But rent levels obviously follow market conditions. Upscale market apartments with rents on the level of Western European capital cities are available in many prosperous cities in ECA. But only in major cities of some CEE countries and Russia are the mainstream markets on this rent level. In most urban areas, there is a substantial supply of much cheaper informal rental apartments, often in privatized private dwellings. For many less-developed cities, the mainstream rental market is on a level of €1.50 per square meter per month or below.⁹ This makes it very difficult to implement formal rental housing schemes with sustainable refinancing schemes.

B.5 Housing finance

B.5.1 Banking system

The banking sector had expanded very strongly in all ECA countries until 2008. In CEE and most SEE countries, the prospect of becoming a member of the European Union has exerted strong leverage to implement necessary, though painful, reforms. This prospect has also facilitated the market entry of international banks (mostly Italian and Austrian), coupled with low proximity to new markets with quasi-identical roots and culture.¹⁰

The three most common types of institutions are specialized mortgage banks, commercial banks and contract-savings programs modeled after the German and Austrian “Bausparkassen” system. That system proved to be the most visible institutional innovation in housing finance in transition countries in the 1990s, most prominently in Slovakia and Romania.¹¹

The Bausparkassen contract savings scheme involves the formation of savings groups that self-finance mortgages. Members receive a loan up to the size of their savings or above, with a limit usually around €10,000. The effectiveness of contract saving is in question in some countries. Drawbacks include high public costs, insufficient social targeting and only limited effects on new construction, as saving is subsidized rather than spending for construction. Pros include education of people to save for future benefits in housing provision; building up a credit history of people, which eases future financing; and the establishment of national financing circuits, which reduces dependence from international financing markets. Altogether, contract saving can be understood as a well-tested tool of microfinancing in housing construction and refurbishment.¹²

B.5.2 Development of mortgage financing

In most ECA countries, retail financing products first appeared in the early 2000s. They were responsible for a boom in new construction of housing in all metropolitan areas of the region. In the years before the Global Financial Crisis, financing conditions became more and more favorable in most countries, not only in terms of decreasing interest rates, but also regarding ever-growing loan-to-value ratios, which in some cases exceeded 100 percent of the market value of the premises.

Housing affordability improved despite the fact that house prices increased more quickly than household income. Decreasing interest rates after 2000 made mortgages affordable for the upper 40 percent of the households, thus relaxing the pressure on social housing. On the other hand, it was particularly the availability of attractive financing products that heated up house price inflation.¹³

The banking industry competed intensively for market shares, particularly in the new markets, knowing that the market leader would have a privileged position in long-term business performance. As such, plenty of insufficiently securitized loans were accepted. With the economic downturn, this practice resulted in big volumes of bad debts and a fundamental change of business conduct.

The crisis produced a gridlock in housing finance in the entire ECA region. For some time, almost any project was stopped because of insecure financing. Since then, housing finance has recovered, but conditions for mortgage financing have changed from scratch. Banks require more owner equity and higher down payments than before. They also require extensive securities and charge higher interest rates. A less enthusiastic economic outlook combined with more restrictive lending conditions led to cooling off mortgage financing, with some countries even decreasing ratios of outstanding mortgage loans to GDP (see Chapter A.5.5).

a) Construction financing

Residential construction in the ECA region is financed mainly from prepayments of future owners and in-kind payments for construction services (future apartments in return for service provision of contractors, e.g., for structural parts or installations). Thus, housing developers have to finance only part of the construction costs.

⁹ IIBW 2010.

¹⁰ Roy, 2008: 151.

¹¹ UNECE, 2005; Amann, Hegedüs, Lux & Springer 2012.

¹² Amann & Mundt 2011: 97.

¹³ Hegedüs et al. 2012: 22; Amann 2009: 26.

This is particularly the case for less-developed countries with limited alternative investment opportunities. Thus, a substantial part of construction activities in those countries works with only minor mortgage indebtedness. Financing is hardly required for housing developers, but mainly for buying households.

b) Retail financing

Access to mortgage loans for purchasers differs depending on the stage of development of local financial markets (see Figure 19) and of course their individual credit rating. In less-developed CIS and SEE countries, the main source for investment in housing is still the buyers' savings and family credits, in a few cases through their participation in housing construction cooperatives, as in Ukraine or Azerbaijan.¹⁴ In more-developed countries, mortgage financing is well-established.

The Global Financial Crisis of 2008 was followed by a period of restrictive financing conditions. In many Western countries, this only meant a closer assessment of the credit history of the borrower and lower loan-to-value ratios. Representative mortgage rates in highly rated Euro countries have been decreasing since then to currently below 3 percent variable (Hypostat). In most transition countries, the reaction of the financing industry to the crisis was much fiercer, with in some cases prohibitively high interest rates and low loan-to-value ratios. As such, credit lending decreased dramatically.

As documented in Figure 10, the situation has since relieved. Representative interest rates are again on an attractive level in many ECA countries. In most CEE countries, housing financing was cheaper in 2013 than in 2007; for example, it was 4.1 percent in Slovakia, 4.7 percent in Romania, and 5.1 percent in Poland (Hypostat). Because of the policy of the individual national banks, mortgage rates are still on a high level, for example 9.6

percent in Hungary in 2013. Interest rates in the CIS region are in contrast to this situation, with representative interest rates of more than 13 percent throughout. In Ukraine, most private banks have stopped mortgage financing because of extremely high interest rates. With interest rates on such a level, it is impossible to finance anything but owner-occupied housing at short-term maturities.

c) Foreign currency financing

Foreign currency (mostly Euro and Swiss franc denominated) loans were popular throughout the region, particularly in Hungary, Poland, Romania and Ukraine. In many cases, they caused serious hardship to borrowers in the wake of the Global Financial Crisis, leading to devaluation of local currencies, a downturn in property values, and insecurity of employment. In some cases, such as in Hungary, national governments forced banks to convert foreign currency loans at fixed rates into local currency, which caused substantial losses to the finance industry and shook the public's confidence in political reliability. Today, foreign currency loans are prohibited in most ECA countries.

d) Rental housing finance

Reluctance to develop rental housing schemes is caused mainly by insufficiencies of financing products with interest rates that are too high, unavailability of long-term maturities, and lack of assessment tools for such investments. Altogether, the state of economic development correlates with trust in long-term financial obligations. In less-developed ECA countries, investors are basically interested in quick returns. This conflicts with rental housing development.

¹⁴ UNECE 2010b: 39.

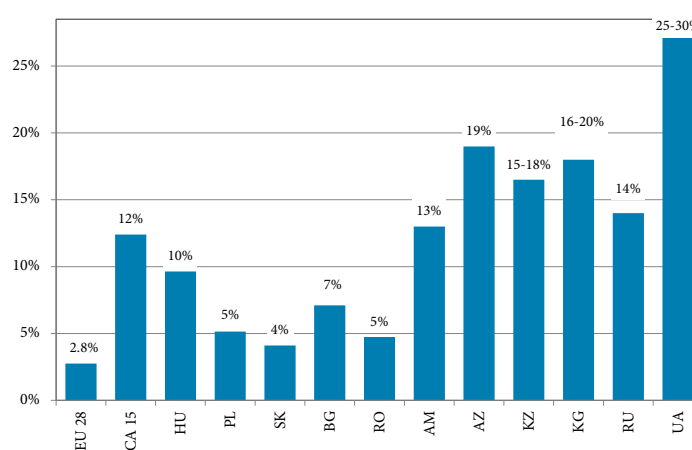
¹⁵ Hegedüs et al. 2012: 22; Amann 2009: 24.

¹⁶ OECD 2005, UNECE 2005b.

Figure 18 Representative mortgage rates

Re.: Interest rate of a representative mortgage loan in local currency. Most recent years, mostly 2013/14.

Source: Hypostat/EMF, EECFA, IIBW.



B.5.3 Social housing finance

In Soviet times, state housing investments were financed through budgetary resources and through the state bank system, which operated under the control of central planning. The banks issued loans at the price and in magnitude set by the central planning agencies. In former Yugoslavia, social housing finance was organized with a fixed royalty of about 0.5 percent from salaries to “Solidarity Funds,” which were usually organized by the same companies where people worked. After 1990, socialist housing finance systems collapsed. Solidarity Funds closed down with mass housing privatization. The fiscal pressure on the state budgets forced the governments in CIS countries to cut housing subsidies drastically. In most transition countries, public housing investments were practically stopped. In parallel, subsidies to bank-financed schemes (such as cooperative or subsidized owner-occupied housing) had been cut severely or withdrawn totally.¹⁷

After the turn of the century, several ECA countries continued to realize social housing (see Chapter A.3). Some countries, mostly in the CIS region, continued to finance such construction from state or municipal budgets. In a few countries, such as Russia, this developed into very significant amounts. In other countries, PPP approaches were tapped, e.g., the TBS program in Poland (see Chapter B.3), combining financing through a state bank with loans from international financing institutions and contributions of future tenants. Most durable proved to be the establishment of housing funds or housing agencies in a number of ECA countries, as described in the following section. Many countries introduced subsidy tools to promote mortgage financing of housing purchases for middle-income groups.

B.5.4 Housing agencies, housing funds, mortgage agencies

Several ECA countries have established housing agencies, housing funds or mortgage agencies to manage social rental investment programs. Such social housing programs mostly target municipalities in their responsibility for social policy.¹⁸ Financing institutions play an important role in the social housing construction of many Western countries, e.g., in the Netherlands (WSW, Waarborgfonds Sociale Woningbouw, see Boelhouwer 2003), Switzerland (BIC, Bond Issuing Cooperative) or the USA (Fannie Mae, Federal National Mortgage Association).

In the ECA region, for example, the following countries rely on such institutions:

Albania: Enti Kombetar i Banesave/National Housing Agency.

Czech Republic: SFRB, or Státní fond rozvoje bydlení/State Housing Fund.

Romania: ANL, or Agenția Națională pentru Locuințe.

Slovakia: ŠFRB, or Štátny fond rozvoja bývania/State Housing Fund.

Poland: KFM, or Krajowy Fundusz Mieszkaniowy/Federal Housing Fund.

Russia: AHML, or Agency on Housing Mortgage Lending.

They follow quite different models. Their main purpose is to collect funds from state budgets, international donor organizations and the capital market and make it available at favorable terms to housing investments. Their primary target is in many cases social housing construction, but in others financing of refurbishment programs. In some cases, they have additional tasks, e.g., land banking, supervision of social landlords or owner housing developments. They are mostly owned by the state, but in a few cases by provinces or with the participation of the social housing sector or commercial banks. Allocation schemes, financing schemes and refinancing differ a lot.

B.5.5 Outstanding mortgage loans

With new mortgage finance products, the volume of outstanding loans increased dramatically in all transition countries after 2000. In Poland, for example, the volume went from barely above zero to close to 20 percent of GDP within only one decade.¹⁹ But compared with Western Europe, outstanding mortgage loans are still on a low level in the ECA region.

In the EU average, outstanding mortgage loans amount to 51 percent of GDP (2013), but countries such as the Netherlands, Denmark or Switzerland are above 100 percent. The indicator increased strongly over the 2000s, but has been stagnating and even slightly decreasing since 2009. As seen in Figure 19, the level is much lower in the ECA region, with only 8 percent of GDP in the average of the countries documented in this report. CEE countries have a higher level of outstanding mortgage loans, with around 20 percent of GDP, while most SEE countries are slightly below 10 percent. In Bosnia and Herzegovina, the level is only 1 percent of GDP. CIS countries have levels mostly below 4 percent of GDP.

Mortgage financing is a very powerful instrument to fuel the economic development of countries. But, as seen in the context of the Global Financial Crisis, dependency on and integration into international capital markets also bear substantial risks.

¹⁷ Amann, Hegedüs, Lux & Springler 2012.

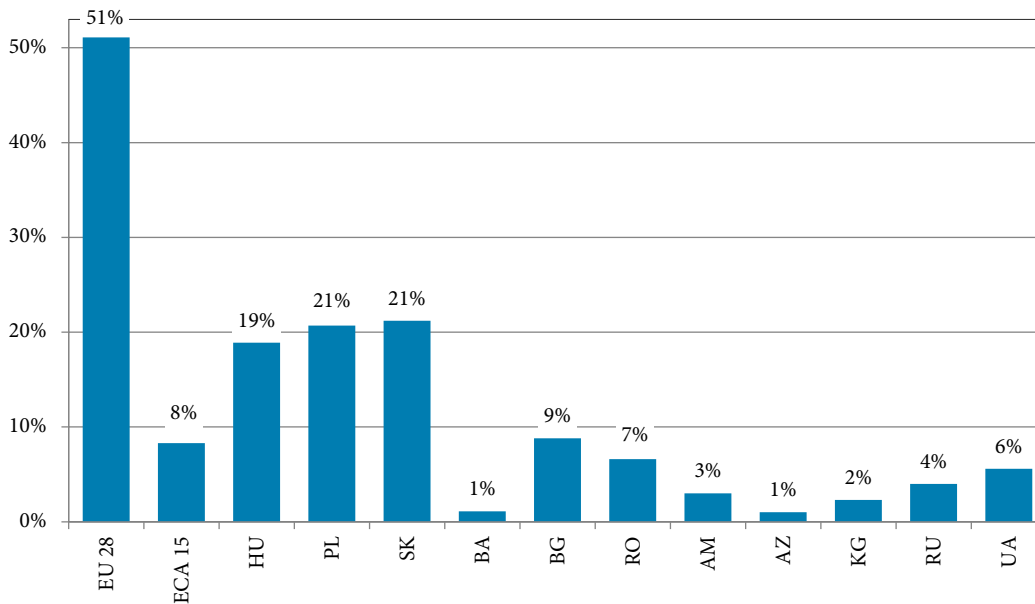
¹⁸ Amann & Springler 2010; Tsenkova 2011: 34.

¹⁹ Amann, Hegedüs, Lux & Springler 2012

Figure 19 Housing loans to GDP (percentage)

Re.: Outstanding housing loans in percentage of the Gross Domestic Product.
 Most recent years, mostly 2013, for Azerbaijan and Bosnia and Herzegovina 2008.
 Sum weighted with GDP.

Source: Hypostat/EMF, National Banks, Habitat for Humanity Global Housing Index, div. literature, IIBW.



Demography, economy, living conditions

In the last two years, in several countries, the long-running trend of a decreasing population ended as birth rates stabilized. This is particularly the case in Russia, Slovakia (pictured), Poland and Georgia.

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Ezra Millstein



C | Demography, Economy, Living Conditions

C.1 New developments since 2013

Since the release of the 2013 Habitat for Humanity Housing Review, the following changes or trends have emerged:

- There has been a demographic shift by age, with a strong decrease in the size of the youth population in most ECA countries, except Central Asia. Demographic forecasts need to be modified as a result.

- Some countries in the last two years have seen a stronger than expected population increase, in particular in Azerbaijan, Kazakhstan, Kyrgyzstan and Tajikistan. In several countries, the long-running trend of a decreasing population ended as birth rates stabilized. This is particularly the case in Russia, Slovakia, Poland and Georgia. Other countries continued to experience a decrease in population in all age groups. Bulgaria, Romania and Hungary are among these countries. Both Ukraine and Bosnia and Herzegovina until recently had stabilized their population levels, but today are faced with a rapidly decreasing population as people flee political instability. The primary driving forces behind the different demographic changes are clearly changing birth rates and migration.

- The influx of thousands of migrants into several ECA countries rose dramatically in 2015 in particular. Despite pressure from past conflicts in the Balkans, Caucasus region and Central Asia diminishing and the number of IDPs and refugees decreasing, some ECA countries still house in collective centers over 100,000 people who fled these wars, offering them little hope of normalization. New conflicts in eastern Ukraine have forced millions more people to flee their homes. Today there are 1.4 million IDPs in Ukraine and over 100,000 refugees in neighboring countries.

- Even more than two years ago, people fleeing conflict zones today have access to cheap mobile phones and the Internet. The influence of social networks has increased dramatically, making it easier for individuals and families to travel to safer countries with good economic perspectives. Meanwhile, host countries struggle to set limits on the entry of new refugees. Against this background, demographic stability is of considerable importance. The main precondition to avoid mass migration is of course peace and stability. Other crucial preconditions are effective public administrations, justice and economic opportunities for all. Additionally, housing plays an important role. In some respects, housing is synonymous with home. For many families, their house or apartment is also their main economic asset. If the house is destroyed and has no prospect of being rebuilt, ties are

broken. As a consequence, instituting programs to rebuild war-affected housing once the violence has ended should be recognized as an effective way to prevent people from migrating. Housing is a shock-absorber in times of peace, but even more so in times of post-conflict.

- The GDP growth rate has recovered in most countries over the past two years at a rather low but stable level, except in countries affected by political instability. The low market price for oil puts pressure on oil-exporting countries (Russia, Kazakhstan, Azerbaijan) but promotes growth in all other countries. There is no country experiencing an economic boom comparable to the previous decade. In general, the ECA region, building on trends identified in 2013, has regained the role of a major driver of global economic development.

- Inflation is moving in a different direction than originally expected in the 2013 review. Back then, it looked like there was an increasing convergence of price inflation. Two years later, it appears that there is a growing divergence in price inflation among regions.

- Whereas incomes increased considerably during the 2000s in transition countries, this development has stabilized. In many cases, incomes fell during the Global Financial Crisis and have recovered only slowly since then.

- As highlighted in 2013, poverty levels continue to decrease in all ECA countries. The threat of poverty and extreme poverty could be significantly reduced in the near future. In several countries, extreme poverty became statistically insignificant.

- The level of inequality is quite varied throughout the ECA countries. Some of them, such as Slovakia and Ukraine, are quite balanced when it comes to the spread of wealth, while inequality has increased in Bulgaria, Hungary, Macedonia (from an already high level) and Kyrgyzstan. It seems stable in Romania (on a quite high level), Russia, Armenia and Tajikistan. Inequality is decreasing in Poland, Ukraine, Azerbaijan, Kazakhstan and Georgia (from quite a high level).

C.2 Demographic background

C.2.1 Downturn of construction output during transition

The 15 countries covered by this report have a population of 323 million people (2014, see Table 1). Several of the ECA countries have suffered from decreasing population between 2004 and 2014, such as Romania (down 7.3 percent), Bulgaria (down 7.1 percent), Ukraine (down 5.1 percent), Hungary (down 2.4 percent) and Russia (down 0.3 percent). Russia has been able to almost reverse its trend of decreasing population. In 2011, Russia witnessed a 10-year decrease of 2.3 percent since 2001, which has been almost compensated in the three years that followed. Together, the 15 ECA countries had a total population increase of 0.5 percent, compared with a 2.9 percent increase for the EU 28. But this increase was driven by a few exceptional countries, particularly Tajikistan (up 25.4 percent to 8.1 million inhabitants), Azerbaijan (up 14.1 percent to 9.4 million) and Kazakhstan (up 14.3 percent to 17 million). Southeastern Europe had quite a negative demographic development (down almost 7 percent) compared with the other regions.

Urbanization in the ECA region is only 66 percent — significantly below the EU average of 74 percent. Again, regional differences are extensive. Few countries have urbanization rates close to or above the EU average, such as Hungary, Russia and Bulgaria. In three of the 15 countries — Tajikistan, Kyrgyzstan and Bosnia and Herzegovina — the rural population is still in the majority. Altogether, urbanization is particularly low in Southeastern Europe. The negative demographic development seems to correlate with a backlog in the development of urban regions. In the CIS countries, the average urbanization is close to the entire ECA region (64 percent), but only because of the high rate of Russia and its dominating size.

Urbanization increased in the EU 28 by 2 percentage points within the past decade, and by 1 percent in the ECA region. It barely increased both in the CEE and CIS countries (0.6 and 0.5 percent), but stagnated in SEE. The strongest increase in urbanization was experienced in Hungary (up 5 percentage points). In six of the ECA countries — Poland, Slovakia, Bosnia and Herzegovina, Macedonia, Armenia and Kazakhstan — urbanization decreased.

The average share of the population between ages 15 and 24 — i.e., the age group particularly important for housing markets and housing construction — is 11.3 percent for the EU and 12.8 percent in the ECA countries. For the past decade, the number of young people in the ECA countries has been rapidly decreasing and is now almost

on level with the EU 28. Two years ago, there was a gap of almost 3 percent between ECA and EU. A particularly young population is found in Tajikistan (20 percent are age 15 to 24), Kyrgyzstan (19 percent), Azerbaijan (19 percent), Kazakhstan and Armenia (16 percent each). Hungary, Bulgaria, Romania and Russia have relatively small shares of young households, 12 percent or below.

The average household size in the European Union is 2.4 people. This is quite different from the ECA region, with 2.8 people on average in the CEE countries, 2.9 people on average in the SEE countries, and a much higher average in many CIS countries except Russia.

C.2.2 Migration

Migration has different dimensions. Many ECA countries suffered from massive outmigration during transition, as people were seeking income opportunities that they could not find in their home country. As the transition countries saw more economic development, emigration decreased and, in several CEE countries, reversed.

A second dimension is migration from rural to urban areas. Increasing urbanization is a global trend, driven again by better income opportunities in cities and by improved urban technologies (infrastructure) to make large metropolitan areas livable. As mentioned above, within the previous decade, the average urbanization has increased in the EU by 2.3 percentage points and by less than 1 percent in the CEE and CIS regions, but was stagnant in the SEE region, after a very high increase rate from 2001 to 2011.

This allows for conclusions on rural-urban migration in the region. The different patterns seem to have the following main reasons:

- The trend of increasing urbanization — albeit from a low level — in the SEE countries seems to have come to an end. This is quite likely due to the economic crisis and the lack of opportunities in urban SEE areas.
- In many ECA countries, migration to the cities was hampered by the consequences of economic restructuring in the course of transition. As alternative jobs (e.g., in the service sector) developed at only a slow pace, cities offered income opportunities on a much smaller scale than in other parts of the world.
- Housing seems to be a major aspect of low rural-to-urban migration in many ECA countries. Housing mobility in most of these countries is just as low as labor mobility. A high ownership rate tends to reduce housing mobility.

But practice in some Asian and Anglophone countries proves that this is not necessarily the case. It is different under conditions of efficient and transparent housing markets. And it is different if affordable housing alternatives in the target areas are available. Neither is the case in most ECA countries. An owned house or a privatized apartment is in many cases the only asset of a household. In economically weak regions, the cash value of residential property is low, as neither demand nor solvency is given. At the same time, housing markets in the metropolitan regions have skyrocketed, at least until the Global Financial Crisis (see Chapter B.3). With their property in rural areas, prospective migrants cannot afford accommodation in the cities. Affordable housing supply and financing are lacking. Secondary markets are not transparent, with insiders skimming the few good offers. Combined with labor markets of still limited potential, it is in many cases economically irrational to take the risk of leaving one's rural home.

C.2.3 Refugees and IDPs

A third dimension is migration caused by war and violence, extreme poverty, or natural or man-made disasters. If people affected by such incidents migrate across a border, the term "refugee" is applied. If they remain within the borders of their home country, the term "internally displaced person," or IDP, is used. Such migrants are particularly vulnerable to human rights violations, and the enjoyment of housing is among the most endangered rights. Although several international instruments oblige states and other agents to ensure the right to adequate housing, these migrants are frequently the victims of discrimination in that respect.¹

Before the escalation of the conflict in Ukraine and the civil war in Syria, up to 2.2 million people were displaced at the end of 2013 in Europe, the Caucasus and Central Asia because of conflict, human rights violations or generalized violence.² They made up nearly 10 percent of the global internally displaced population. The majority had been displaced by conflict in the 1990s during the breakup of the Soviet Union and Yugoslavia. But in 2014, a new major conflict broke out in the region, namely the civil war in eastern Ukraine.

Internal displacement has affected virtually all countries in the Western Balkans and in the CIS region, with, according to the World Bank database (2013), the biggest numbers of IDPs in Azerbaijan (>500,000), Georgia (250,000) and Kyrgyzstan (160,000). The Balkan Wars of the 1990s created 3 million IDPs, and several hundred thousand remain displaced throughout the region. The number of IDPs has gradually decreased during the past decade in Armenia, Bosnia and Herzegovina, Croatia,

Kosovo, Kyrgyzstan, the Russian Federation, and Serbia, but it has remained stable in Azerbaijan and Georgia.³

A new critical situation emerged in Ukraine, where, after months of protest in the capital, Kiev, the government was overthrown. In the following months, a pro-European government came into office, which caused some eastern provinces to start a process of forced secession. After a year of conflict, there are 1.4 million registered IDPs in Ukraine and more than 700,000 refugees in neighboring countries.⁴ The annexation/secession of Crimea through Russia caused only a minor number of refugees/IDPs.

Adding to that, a steadily rising number of refugees come to the ECA countries from the ongoing civil wars in the southern Mediterranean and the Middle East, particularly Iraq and Syria. Especially in SEE countries, the numbers of refugees from the MENA region are constantly rising. Nevertheless, according to the World Bank database (2010-11, not yet considering refugees from war in Syria and from the MENA region), the ECA countries documented in this report host only relatively small numbers of registered refugees. Most refugees go to Western Europe. Refugees from Africa are in large part not regarded as refugees, but as illegal immigrants.

The conflict in Ukraine provides some specifics on migration from man-made disasters. Only a portion of migrants fled because of direct threats of violence. More people left the conflict zone for other reasons. The government's decision to stop social transfer payments in the conflict zone forced many pensioners to register in neighboring districts to continue to receive their pension, without really migrating. Other people left to other parts of Ukraine, as they see no economic prospects in their former home, putting many of them in an economic situation similar to "normal" migrants. Those groups have insignificant need for shelter and aid. Very problematic, by contrast, is the group of IDPs which lived in vulnerable circumstances even before the conflict, e.g., single parents, people with disabilities, people with no education, and those directly affected by violence. There is no statistic on the sizes of those groups, but it seems that the latter is only a fraction of the total number of IDPs.⁵ The housing situation of refugees and IDPs is described in Chapter A.7.2.

¹ U.N. Special Rapporteur 2010: para. 9.

² IDMC 2013.

³ IDMC 2011: 61.

⁴ UNHCR, 6/2015; IDMC 2015.

⁵ Amann 2015c.

Table 6 Demographic situation in ECA countries

Re. Data are mostly from 2014 but is older in a few cases.

ECA 15 countries = all listed countries together, increase weighted.

Sources: National Statistical Offices, Eurostat, World Bank Database, IIBW.

Country	POPULATION					HOUSEHOLDS			
	Total (1,000)	Increase 2004-14 (%)	Increase 2014-30 (%)	Total urban 2013 (%)	Total urban 2003 (%)	Total rural 2013 (%)	15-24 years (% of total)	Total (1,000)	ø size (people)
EU 28	506,800	2.9%	2.3%	74%	72%	27%	11.3%	213,800	2.40
ECA 15	323,200	0.5%		66%	65%	35%	12.8%		
CEE Countries									
Hungary	9,900	-2.4%	-2.0%	70%	65%	30%	11.9%	3,800	2.60
Poland	38,000	-0.5%	-1.3%	61%	62%	40%	12.4%	15,000	2.80
Slovakia	5,400	0.8%	-1.9%	54%	56%	46%	12.6%	1,800	2.90
SEE Countries									
Bosnia and Herzegovina	3,800	0.0%		39%	40%	61%	12.7%	700	
Bulgaria	7,200	-7.1%	-10.6%	73%	70%	27%	10.4%	2,700	2.70
Macedonia	2,100	1.8%		57%	60%	43%	14.2%		3.70
Romania	19,900	-7.3%	-4.7%	54%	53%	46%	11.4%	7,500	2.30
CIS Countries									
Armenia	3,000	-6.1%		63%	64%	37%	15.7%	800	3.70
Azerbaijan	9,400	14.1%		54%	52%	46%	18.6%	1,900	4.70
Kazakhstan	17,000	14.3%		53%	55%	47%	16.1%	4,400	3.40
Kyrgyzstan	5,700	13.4%		35%	35%	65%	19.5%	1,100	4.60
Russia	143,700	-0.3%		74%	73%	26%	11.8%	54,300	2.60
Tajikistan	8,200	25.4%		27%	26%	74%	20.1%	1,200	6.30
Ukraine	45,400	-5.1%		69%	67%	31%	12.4%	16,900	2.60
Other Countries									
Georgia	4,500	4.1%		53%	52%	47%	14.2%		

C.3 Economic background

C.3.1 Economic development

The 15 ECA countries covered in this section have a gross domestic product that is far lower than that of the EU 28: €2.6 trillion. (nominal, 2014, see Table 7, p. 128), which amounts to only about one-fifth of EU 28's GDP. In the ECA countries, GDP per capita in relation to the purchase power standard is €15,100, compared with an average of €25,700 for the EU. GDP growth in ECA was an average of 3.6 percent over the past 10 years (2004–14). This is significantly stronger than in the EU, where average growth was only 0.6 percent. But inflation is also much higher in ECA countries, at 5.5 percent in 2014. The informal sector has grown rapidly during transition, particularly in the CIS.⁶

In most ECA countries, high fiscal discipline and high liquidity of the international capital markets in the past decade led to economic recovery, relatively low budget deficits and economic growth rates above Western European levels. But in 2014 it looked slightly different. Whereas GDP in the EU on average grew by 1.4 percent, which is more than twice the long-term average, it was significantly below that of the ECA countries. Only a few of the ECA countries could maintain high growth rates above the long-term average, among them the small countries of Macedonia and Tajikistan. Hungary improved from quite a low level of growth. All other countries had lower GDP growth rates in 2014 compared with the 10-year average. Most significantly, Ukraine's rate retracted as a result of political turmoil, with a decrease of 8.2 percent in 2014. In other countries, economic development cooled off significantly, for example in Azerbaijan and Russia. This is mainly a result of low oil prices on international markets. The same reason — cheap energy — is mainly responsible for the slight economic upturn in EU countries.

Central and Eastern Europe

The three analysed CEE countries (all three are EU member states) — Hungary, Poland and Slovakia — have GDPs per capita between €17,000 and €20,000 (for 2013, in purchase power standard; see Table 7, p. 128), compared with almost €26,000 in the EU average. It is an interesting pattern that most new EU member states have, at different times, experienced periods of outstanding economic development, followed by stagnation or recession. Hungary experienced an impressive economic development until the mid-2000s, followed by severe political and economic hardship, which only currently seems to have stabilized. Slovakia and Poland are exceptions to this pattern, as they started later than the others with an economic upturn, which recently cooled off but is still above the EU average. Slovakia entered a

boom phase in 2002, with GDP growth rates of up to 10 percent until 2008. Poland was at a peak of economic development in 2007 and 2011. Its strong economic position at that time is best characterized by the fact that it was the only EU country with no recession in the crisis year of 2009. In boom times, some CEE countries had economic developments heading to par with those of western EU countries, but most of them fell back in the following recession years. In total, after 25 years of transition, the backlog persists. Over 10 years from 2003 to 2013, the GDP per capita (in purchase power standard) increased in Hungary from 63 percent to only 67 percent of the EU average, but much more impressively in Poland from 49 percent to 68 percent and in Slovakia from 56 percent to 76 percent. Slovakia is catching up to the CEE countries with the best economic performance, Czech Republic and Slovenia. These data show that it will take probably another 20 years until the first transition countries have caught up to the EU average, not to talk about the economic level of neighboring countries such as Austria or Germany. Altogether it will have taken half a century to recover from the economic backlog caused by state socialism and the Cold War.

Southeastern Europe

The four SEE countries covered in this report are characterized by quite diverse economic developments. GDP per capita ranges from only €7,200 in Bosnia and Herzegovina to €13,900 in Romania (for 2013, in purchase power standard; see Table 2). This is more than 70 percent below the EU average for Bosnia and Herzegovina, but “only” 46 percent for Romania. In a 10-year average, the region has achieved an annual GDP growth rate of roughly 3 percent. This is virtually the same performance as the three CEE countries described above, but starting from a much lower level, and much higher than the EU average of only 0.6 percent. The 10-year average GDP growth was an impressive 3.4 percent in Romania, 3.2 percent in Bulgaria, 3.1 percent in Macedonia and 2.4 percent in Bosnia and Herzegovina.

Bosnia and Herzegovina is in a very complicated political situation, combined with a low level of economic development. Its economy performed well between 2004 and 2008, with yearly growth rates of up to 6 percent. Decline in 2009 was smaller than in the EU average. But the economy didn't really grow, with the region experiencing recession in 2012. If the entire region suffered from the Balkan Wars in the 1990s, the nations hit hardest, in terms of economic development, were Serbia and Bosnia and Herzegovina. Both countries were, during the communist Yugoslav period, economically behind Slovenia and Croatia. But after transition, the gap grew wider.

⁶ UNECE 2004d: 166.

The diversity of economic performance is closely linked to different stages of EU integration in these countries. Romania and Bulgaria both enjoyed tremendous economic development in the years after they joined the EU. But increasing international integration and an unsustainable real estate boom led to a heavy downturn of economic development in the crisis year of 2009. Since then, both countries have been recovering well, with average GDP growth rates of around 2 percent between 2010 and 2014.

Macedonia has a similar 10-year GDP growth rate to Romania and Bulgaria of above 3 percent yearly. Quite impressive is the current dynamics with 3.5 percent in 2014 and a similar outlook for 2015.

Commonwealth of Independent States

The CIS countries are economically dominated by Russia, which has a GDP representing almost 80 percent of the entire region — nine times the volume of the second-largest economy, Kazakhstan. The GDP per capita differs extremely, from below €2,000 in Tajikistan (2013, in purchase power standard) to €19,000 in Russia, compared with the EU average of almost €26,000.

In economic terms, these countries may be distinguished in four groups: Russia is a relatively wealthy country, even though its GDP per capita is still 26 percent below the EU average. But economic power is concentrated in a few metropolitan regions, some of which exceed the economic potential of the strongest agglomerations in Western Europe. The second group includes Kazakhstan and Azerbaijan, with GDPs per capita of €17,500 to €12,900. In the past decade, both countries have gained on Russia in terms of GDP per capita, but are still behind. Both countries are benefiting from a substantial oil boom after transition, and Azerbaijan has more than tripled its GDP per capita since 2000. Ukraine and Armenia, as a third group, have GDPs per capita of €6,600 and €5,900 (65 percent and 69 percent below Russia's, respectively). Both countries have had major political and economic difficulties during transition. The Central Asian countries Kyrgyzstan and Tajikistan have GDPs per capita below €2,400 (87 percent to 90 percent below Russia). These countries also have gradually improved, showing remarkable growth rates from the early 2000s until today. But because of their very low economic level and, for Kyrgyzstan, political instability, they are closer to developing countries than to emerging markets. Kyrgyzstan switches from periods of recession to periods with very high growth rates, e.g., more than 10 percent in 2013. Tajikistan has enjoyed stable high growth rates for 15 years.

The CIS region has experienced a weighted average GDP growth rate for the past decade (2004-2013/14) of almost 4 percent, which is slightly higher than that of the SEE or CEE region and of course of the EU. The average growth rate was a remarkable 12.3 percent in Azerbaijan, 6.9 percent in Tajikistan, 6.5 percent in Kazakhstan, 5.7 percent in Armenia, but only 3.5 percent in Russia and, because of a heavy downturn in the conflict year of 2014, only 0.9 percent in Ukraine. In economic terms, Georgia closely resembles its neighboring country, Armenia.

C.3.2 Budgetary discipline

Budgetary discipline and state debt have a strong impact on housing issues, as high deficits almost inevitably result in reduced social expenditure and make welfare schemes vulnerable and difficult to predict.

In 2014, EU member states had yearly budget deficits of 2.9 percent of GDP on average, with several countries struggling with the “Maastricht Criteria” of 3 percent. The biggest challenge is the cumulative budget deficit, which skyrocketed after the Global Financial Crisis to 87 percent of GDP on average, which is far above the 60 percent targeted in the “Maastricht Criteria.” It increased after 2008 in some EU countries by more than 50 percentage points (Ireland, Cyprus, Slovenia, Portugal, Spain).

The CEE countries covered in this report, all of them EU member states, had budget deficits in 2014 close to the EU average of 3 percent of GDP (Figure 20). Recently, all CEE countries have succeeded in considerably reducing state deficits. The cumulative GDP deficit is close to the EU average in Hungary, but at only around 50 percent of GDP in Slovakia and Poland. Hungary and Poland succeeded in minimally increasing their national debt by less than 5 percentage points after the Global Financial Crisis. Slovakia has almost doubled its cumulative deficit since 2008.

The SEE countries covered in this report have a slightly better performance in budgetary discipline, compared with the three CEE countries, and a much better one compared to the EU average. In 2014, Romania had a deficit of only 1.5 percent of GDP, and Bulgaria and Bosnia and Herzegovina had deficits below 3 percent. The two latter have a cumulative budget deficit below 30 percent of GDP, and Romania and Macedonia have one below 40 percent, compared with 87 percent in the EU average. Bulgaria and Macedonia succeeded in increasing their cumulative state deficit since 2008 by “only” 15 percentage points. In Romania, it tripled.

CIS countries have lower state debt than other ECA countries. Russia succeeded in keeping its budget expenditure under control, with only around 10 percent of GDP cumulative budget deficit and even a surplus in some recent budgetary years. Kazakhstan has a stable budget deficit of around 2 percent of GDP for the past few years. A surplus is forecasted for 2015 and 2016. The cumulative deficit has increased to 20 percent of GDP but is expected to go down again. The very high budget deficit of Kyrgyzstan, as seen in Figure 20 for 2012, is a result of political instability. Ukraine is a special case because of the current political situation. The numbers in Figure 20, with 4.2 percent current and 39 percent cumulative

budget deficits, are from 2013. The conflict with Russia is very costly and causes massive budget deficits. But because of the moderate hitherto cumulated deficit, there seems to be no threat of a state bankruptcy.

Lower debt of states in the SEE and CIS regions results from integration in the global capital market, which makes it more difficult for those countries to take loans or issue bonds. On the other hand, it was an explicit policy target in several of those countries to reduce dependency on international (Western) financial markets.

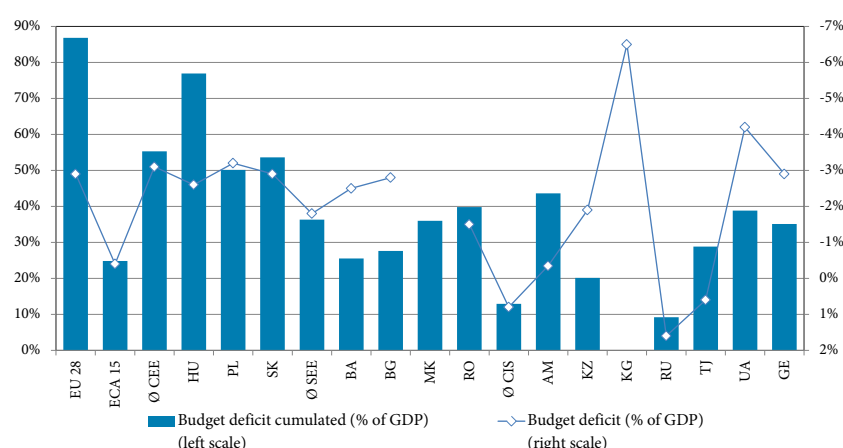
Table 7 Economic indicators for ECA countries 2014

Re. Data are mostly from 2014 but are older in a few cases.
 GDP per capita (EU 28=100) = index, PPS.
 ECA 15 countries = all listed countries together.
 Weighted with population (GDP per capita) or GDP (all other).
 Sources: National Statistical Offices, Eurostat, World Bank Database, EECFA, WIIW, IIBW.

Country	Currency	Currency rate to € (EUR)	Currency rate to \$ (USD)	GDP (billions €)	GDP per capita (€, PPS)	GDP per capita (EU 28 =100)	GDP growth rate (%)	Ø GDP growth rate 2004-2014 (%)	Inflation rate (% yty)
EU28			1.33	13,490	25,700	100	1.4%	0.6%	0.6%
ECA15				2,590	15,100	59	0.9%	3.6%	5.5%
CEE Countries									
Hungary	Forint (HUF)	309	410	105	17,200	67	1.4%	0.8%	0.0%
Poland	Złoty (PLN)	4.18	5.56	407	17,500	68	2.2%	3.7%	0.1%
Slovakia	Euro (€)	1.00	1.33	77.6	19,600	76	2.8%	3.9%	-0.1%
SEE Countries									
Bosnia and Herzegovina	Marka (BAM)	1.96	2.61	13.4	7,200	29	0.5%	2.4%	-0.9%
Bulgaria	Lev (BGN)	1.96	2.60	42.6	12,000	47	1.7%	3.2%	-1.6%
Macedonia	Denar (MKD)	61.6	81.8	8.2	9,000	36	3.5%	3.1%	-0.3%
Romania	Leu (RON)	4.44	5.90	147	13,900	54	2.2%	3.4%	1.4%
CIS Countries									
Armenia	Dram (AMD)	556	739	7.9	5,900	23	3.5%	5.7%	5.8%
Azerbaijan	Manat (AZN)	1.07	1.42	55.4	12,900	50	2.8%	12.3%	2.4%
Kazakhstan	Tenge (KZT)	250	333	155	17,500	68	4.3%	6.5%	6.7%
Kyrgyzstan	Som (KGS)	71.1	94.5	5.4	2,400	9	3.6%	4.2%	7.5%
Russia	Ruble (RUB)	51.0	67.7	1,401	19,000	74	0.6%	3.5%	7.8%
Tajikistan	Somoni (TJS)	6.74	8.96	6.5	1,900	7	7.4%	6.9%	6.1%
Ukraine	Hryvnia (UAH)	15.8	21.0	142	6,600	26	-8.2%	0.9%	12.1%
Other Countries									
Georgia	Lari (GEL)	2.42	3.21	12.2	5,400	21	3.3%	5.3%	1.8%

Figure 20 Budget deficits 2014

Re.: Most data as per 2014, few are older
 Ø sums weighted with GDP.
 Source: Eurostat, National Statistical Offices,
 WIIW, Germany Trade & Invest 2015,
 IIBW



C.3.3 Price inflation - consumer prices

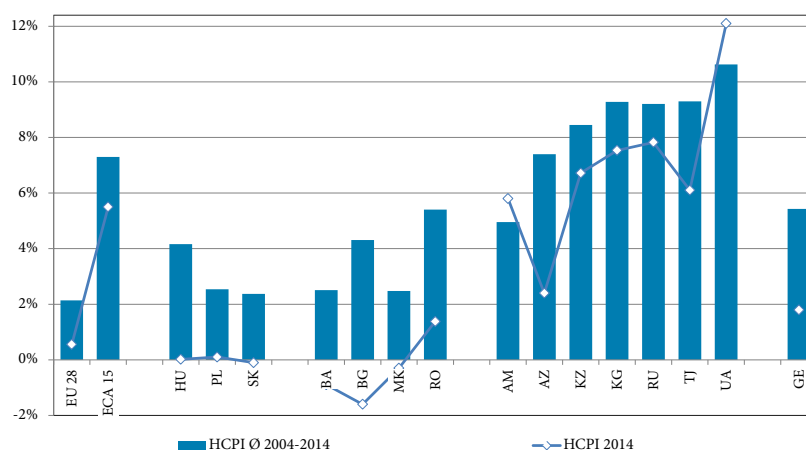
Figure 21 shows a clear pattern of price inflation, or the consumer price index, respectively. In a 10-year average, price inflation was at 2.1 percent in the EU 28, but at 7.3 percent in the 15 ECA countries analyzed in this report. For the CEE region, it was only slightly above the EU average in Slovakia and Poland, but twice as high in Hungary. For the SEE region, there are also two countries with moderate price inflation close to EU average, Bosnia and Herzegovina and Macedonia, whereas Bulgaria and Romania are far above. By contrast, all CIS countries have suffered from very high price inflation of more than 9 percent on the average over the past decade. The highest documented average price increases were in Ukraine, with almost 11 percent per year. But Russia, Kazakhstan, and the Central Asian countries Kyrgyzstan and Tajikistan also suffered from lasting inflation rates above 8 percent.

In 2014, inflation in Western Europe was very low. It was close to or below zero in all three CEE countries documented in this report. Three of the SEE countries (except Romania) even experienced price deflation, including 1.6 percent in Bulgaria. In most CIS countries, inflation remained high, at almost 8 percent on average, but below the long-term average. Georgia and Azerbaijan had by far the lowest inflation in the region, with 1.8 and 2.4 percent, respectively.

In almost all countries, recent price inflation is significantly below the long-term average, except Armenia and Ukraine.

Figure 21 Consumer prices

Re.: HCPI = Harmonized Consumer Price Index
 Sum ECA15 weighted with GDP.
 Source: Eurostat, World Bank database, IIBW



C.3.4 Incomes

Transition occurred in all former communist countries, followed by a decrease in economic output and accompanied by a fall of real wages.⁷ Recovery of wages and hence of domestic demand developed only slowly during the 2000s. Today, even in the most developed CEE countries, average wages struggle to reach even half of the EU average (see Table 8).

Statistics on wages and incomes are less standardized than other numbers. The 2013 Habitat for Humanity Housing Review documented average wages of employees. In EU countries, this number is hardly published any more. The main reason is the growing usage of EU SILC data (Statistics on Incomes and Living Conditions), with its household perspective. This source provides data on equivalent monthly income per capita, which is far below average wages, depending on labour force participation of household members and household size.

The average monthly income in the EU 28 was €1,285, but only €330 on average for the 15 ECA countries represented in this section. This is one-quarter of the EU average.

Slovakia, at €560, reaches roughly half of the EU average, Russia, Poland and Hungary, with between €380 and €440, reach one-third. Equivalent monthly incomes in Kazakhstan, Bulgaria, Azerbaijan, Romania and Ukraine are between €280 and €160, a fifth to an eighth of the EU average, and in Georgia, Armenia, Kyrgyzstan and Tajikistan, incomes are between €100 and €40, only 7 percent to 3 percent of the EU average. Of course the income situation of households looks different if one is considering differences in purchasing power in the respective countries.

C.4 Living conditions

C.4.1 Income inequality

Inequality is statistically documented with the inequality of incomes ratio and the Gini Coefficient (see Table 8). The inequality of income ratio is the multiplier between the average incomes of the highest- and lowest-income quintile (20 percent) of the population. The Gini Coefficient distinguishes equality with zero for total equality and 1 or 100 percent for total inequality. Both indicators together provide a clear picture on the different regions covered in this report. In mature Western economies, both indicators provide consistent results. In less mature economies with less reliable data, the indicators in some cases show quite divergent results.

Before transition, almost all countries of Eastern Europe and the CIS had less inequality of incomes than in the Organisation for Economic Co-operation and Development, or OECD, average. High levels of social expenditure and low wage differentials meant that the distribution of incomes within the Eastern Bloc was significantly more egalitarian than in most market economies. Economic transition has resulted in a rise in inequality right across the region. However, the size of the increase has varied considerably.⁸

Today, the EU 28 has an inequality of incomes ratio of 5.2 (Gini Coefficient 31). But some of the most well-developed countries have ratios below 4, including some Scandinavian countries and the Netherlands, but also Slovenia, Czech Republic and Slovakia (Gini below 26 each). The other two CEE countries represented in this study have higher inequality of income ratios but are still below the EU average (Gini for both below 31).

SEE countries have a much more unequal society compared with the EU average. The numbers are extreme for Macedonia, with an inequality of incomes ratio of 12 and a Gini Coefficient of 43. But both Romania and Bulgaria have quite high levels, with inequality of incomes ratios of 7 and Ginis of around 35.

For CIS countries, the two indicators only partly coincide. Both show a very good level for Ukraine, which seems to be the most equal society in the region with an inequality of incomes ratio of only 3.3 and a Gini of 25. This resembles Scandinavian countries.

For Tajikistan, the two indicators also coincide with an inequality score of 4.7 and a Gini of 31, which is below the EU average. A rather low level of inequality exists in Azerbaijan, even though an inequality of income ratio of 2, as documented by statistics, seems impossible. High levels of inequality are found in Russia and Kyrgyzstan (Gini of 40 and 46).

C.4.2 Poverty

Statistical data on poverty are widely inconsistent, since the phenomenon of poverty is a question not only of monetary indigence, but also of access to social life and infrastructure. The share of people below the poverty line – an indicator based on consumption (or income) levels – is often used, but other indicators are needed to capture other dimensions of poverty. The Millennium Development Goals also specify a number of relevant indicators.⁹

⁷ UNECE 2004d: 167.

⁸ UNECE 2004d: 165.

⁹ World Bank; CPRC 2005: 8.

Eurostat, meanwhile, provides reliable data from a regular household survey (EU SILC, Statistics on Income and Living Conditions) that combines data on incomes, the relative income level in a country, and a set of criteria of social exclusion. But this source is available only for a limited set of countries with recent data. Besides EU member states, this includes a number of potential candidate states, e.g., Macedonia (see Table 8).

In the EU, an average of 24.5 percent of the population is threatened by poverty. In the Eurostat concept, threat of poverty is defined basically as being below 60 percent of median income. As a consequence, this level is generally lower in more equal societies and higher in countries with high income disparities. Cross-country comparisons seem not entirely reliable, but time-series of individual countries are useful.

For the CEE countries represented in this study, this results in an average number close to the EU mean. In Hungary, the level is higher, but Slovakia's is significantly lower. In Hungary, 30 percent of households are under threat of poverty. In Poland, the current level is 26 percent of the population, which is on par with the EU average. An impressive success story can be observed in Slovakia, where the rate was at 30 percent a decade ago but is now below 20 percent.

Poverty is a much more serious issue in the SEE region. In Macedonia, 31 percent of the population is threatened with poverty, while in Romania, it's 40 percent, and in Bulgaria, 48 percent. Slight gains in the fight against poverty can be observed in Bulgaria and Romania, but the extremely high levels of poverty in these countries calls into question the reliability of the statistical methodology measuring gains.

EU SILC also covers Armenia, where one-third of the population is under threat of poverty. But this number has been quite volatile for the past few years.

Most countries have additionally defined national poverty lines, but they hardly qualify for comparative analysis. We make an exception for few of the CIS countries, as they perform a regular Households Living Condition Survey, following a similar methodological basis. But the poverty level provided for Russia and Kyrgyzstan differs from the statistical concept of threat of poverty in the EU SILC. Following this data source, almost half of the population in Kyrgyzstan lived in poverty one decade ago, but that decreased to 37 percent by 2013. Most successful was the fight against poverty in Russia, where in 2000 almost 30 percent of the population were concerned, but today poverty threatens only 11 percent.

A converse data concept is a fixed level of individual

incomes, neither considering different purchasing power nor price inflation, e.g., people living on less than US\$2 per day. This concept describes extreme poverty quite well, as under conditions of extremely low incomes, all other aspects of vulnerability become less relevant.

Extreme poverty was no evident problem in the ECA countries before transition. It seems to be one of the most humiliating failures of the political process of transition that in several countries this became different. In some CIS countries, extreme poverty was and still is present in everyday life. In most Western European countries, virtually no one lives on less than US\$2 per day. The same is the case for most CEE countries. (see Table 8) Only Slovakia has 0.5 percent and Hungary 0.2 percent of the population at this income level. The situation is much worse in the SEE region, with 1.6 percent of the population in Romania and even 3.9 percent in Bulgaria classified as extremely poor (2011/12). An even higher share of 5.9 percent was documented for Macedonia, but no data after 2009 are available.

In the CIS region, extreme poverty is an urgent problem in some Central Asian and Caucasus countries. Almost 40 percent of the population in Tajikistan live on less than US\$2 per day, compared with 31 percent in Georgia, 21 percent in Kyrgyzstan and 15 percent in Armenia. The good news is that in most of those countries extreme poverty could be significantly reduced in recent years. In other CIS countries — Azerbaijan, Kazakhstan, Russia and Ukraine (before the current crisis) — extreme poverty is not prevalent anymore.

Given the decrease in production output and real wages and the increase in inequality, it is not surprising that both absolute and relative poverty levels increased during the 1990s, particularly in the CIS and Southeast Europe.¹⁰ The percentage of people living below the poverty line increased by three to five times.¹¹ While poverty began to decrease in some countries — such as Hungary and Slovakia — after the initial shock of transition, it has continued to rise in most. Poverty was worst in the former Soviet Union.¹²

The total share of extreme poverty in the 15 ECA countries covered by this report seems like a small percentage, but taking into account that roughly 7 million people are concerned, the severity of the situation becomes evident. Data from the past decade give reason for optimism, however, as most countries are successful in fighting poverty. Poverty is closely linked to unaffordability of housing. Further analysis of this aspect is provided in Chapter A.4.

¹⁰ UNECE 2004d: 168.

¹¹ Council of Europe 2002:12.

¹² UNDP 1997: 58; Aidukaite 2011: 214.

C.4.3 Energy poverty

Energy poverty is defined as “a situation where a household is unable to access a socially- and materially-necessitated level of energy services in the home”.¹³ Usually, this situation is defined when a household spends more than 10 percent of its income on energy.¹⁴ But the issue is more complex, as factors such as the inability of a household to maintain a healthy temperature level, having to live in insufficiently heated homes or debts for residential utility services have to be taken into account as well.

On an EU level, energy poverty went on the official agenda only in 2009, with the Directives 2009/72/EC and 2009/73/EC “concerning common rules for the internal market in electricity and natural gas supply”, followed by the “European Economic and Social Committee opinion on energy liberalization” of 2010.¹⁵

¹³ Bouzarovski 2011: 1.

¹⁴ see UNDP 2014: 22.

¹⁵ Bouzarovski et al. 2012: 3.

Table 8 Living conditions 2014 (incomes, equality, poverty)

Re. Data are mostly from 2014 but in few cases are older.
 Gross monthly wages = 1/12 of yearly wages.
 Inequality of incomes ratio = multiplier between highest and lowest income quintile.
 Threat of poverty: before social transfer, percentage of total population.
 Extreme poverty level = percentage of population with < US\$2 a day (PPS).
 ECA 15 countries = all listed countries together.
 Sums weighted with population.

Sources: Eurostat, WIIW, BuildEcon, UNICEF TransMonEE database, ADB (2012), Nat. Stat. Offices, HfH/IIBW survey 2012

Country	Gross monthly wages (€)	Monthly income (equivalent p.c.)	Unemployment rate (%)	Inequality of incomes ratio	Gini Coefficient	Threat of poverty (% of total population)	Extreme poverty (% of total population)
EU28		1,285	10.2%	5.2	31%	24.5%	
ECA15		337	7.3%	4.8	35%		2.2%
CEE Countries							
Hungary		380	7.7%	4.5	28%	33.5%	0.2%
Poland		430	9.0%	5.2	31%	25.8%	0.1%
Slovakia		561	13.2%	3.8	24%	19.8%	0.5%
SEE Countries							
Bosnia and Herzegovina	420		27.5%		36%		
Bulgaria	340	244	11.5%	7.0	35%	48.0%	3.9%
Macedonia	340		28.0%	12.0	43%	31.3%	
Romania		172	6.8%	7.0	34%	40.4%	1.6%
CIS Countries							
Armenia	260	85	16.9%	5.7	37%	33.7%	15.5%
Azerbaijan	420	210	5.0%	2.0	34%		
Kazakhstan	480	279	5.1%		28%		
Kyrgyzstan	180	53	8.0%		46%	37.0%	21.1%
Russia	640	441	5.2%		40%	11.0%	
Tajikistan	130	42	2.5%	4.7	31%		39.6%
Ukraine	220	155	9.0%	3.3	25%		
Other countries							
Georgia	360	99	15.0%	7.1	40%	24.7%	31.3%

Little is known about this topic in less-developed areas in the EU, such as Bulgaria, let alone other SEE and CIS countries. After liberalization of energy markets in most countries, energy prices have in many cases reached Western levels, but household incomes remain far below those of the West. For this reason, the topic came to the political agenda recently. The European Bank for Reconstruction and Development, or EBRD, conducted a study on the topic of “affordability” of water and energy in transition countries in 2005.¹⁵ Furthermore, the UNDP study (2014) focused on energy poverty in Europe and CIS countries.

The SEE countries suffer from a “pervasive nature” of energy poverty.¹⁶ This is mainly connected to the lack of adequate domestic energy services and the limited extent of networked energy infrastructures (gas). This means that energy poverty is on the rise in SEE countries not only because of economic issues, but also because of technical shortcomings. Together with steadily rising electricity prices, this situation means the only possibility for some parts of the population is to switch to cheaper forms of heating energy, usually fuelwood.

For many potential candidate countries in the Western Balkans and the CIS region, the EU initiated an Energy Community Treaty in the early 2000s. This supranational initiative is responsible for the biggest part of legislation on energy efficiency and other issues related to EU energy policy in the region, and also considers social issues.¹⁷

Furthermore, the U.N. launched the “Sustainable Energy for All” initiative in 2011, but only two of the ECA countries covered in this report — Russia and Tajikistan — are partner states.

A possible indicator for the level of energy poverty is the energy cost ratio of a country’s households (Figure 22). Since the liberalization of energy markets in the former Warsaw Pact and socialist countries, the increase of energy prices has not been accompanied by a similar rise in income. In Poland, for example, energy costs per household have been rising steadily since 1995 (currently at 9 percent). At the same time, levels of poverty have fallen considerably. This suggests that energy affordability is a huge issue among the population and that the reduction of (absolute and relative) poverty is not relieving the pressure of the rising energy costs in a liberalized market.¹⁸ By far, the highest energy cost ratio can be seen in Slovakia, where it has risen from slightly above 6 percent in 1995 to close to 12 percent in 2006. After a slight decrease in 2007-10, it is again nearing the 12 percent mark. This has to do with harsh tariff reforms. Energy markets in the CIS region are still heavily subsidized. This is one of the reasons why levels of energy cost ratio in some countries is still below the EU 28 average.

¹⁵ Fankhauser/Tepic 2005.

¹⁶ Bouzarovsky 2011: 5.

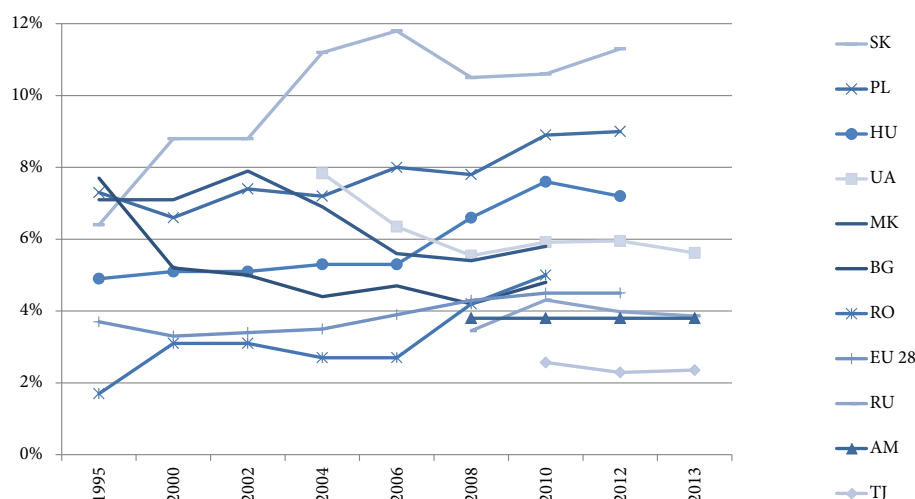
¹⁷ UNECE 2012; Bouzarovsky et al. 2012: 4.

¹⁸ cf. Bouzarovsky 2011: 4.

Figure 22 Household Energy Cost Ratio

Re.: Data for EU and candidate countries derive from National Accounts; for CIS countries from a Households Living Condition Survey.

Source: Eurostat, National Statistical Offices, IIBW





Housing review 2015 looks at the latest European housing crisis through three themes - affordability, sustainability and livability. It also provides an update of the 2013 Housing Review with the latest numbers and new information related to housing in Europe and Central Asian countries.

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D.3 Abbreviations

CEE	Central and Eastern Europe
CIS	Commonwealth of Independent States (former Soviet Union)
CPI	Consumer Price Index
ECA	Europe and Central Asia
EU 28	European Union (in the extent of 2011 with 27 member states)
EU SILC	Statistics on Income and Living Conditions
GDP	Gross domestic product
GFC	Global Financial Crisis
HOA	Homeowners' association
IDPs	Internally displaced persons
LTV	Loan-to-value ratio
PPS	Purchase power standard
SEE	Southeastern Europe

For country abbreviations, the endings of Internet country domains are used:

AM	Armenia
AZ	Azerbaijan
BA	Bosnia and Herzegovina
BG	Bulgaria
GE	Georgia
HU	Hungary
KG	Kyrgyzstan
KZ	Kazakhstan
MK	Macedonia
PL	Poland
RO	Romania
RU	Russia
SK	Slovakia
TJ	Tajikistan
UA	Ukraine



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