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## **The Common Features of the Housing Policies and Markets of the East-Central European Countries During the Era of Socialism and the Era of Transition<sup>1</sup>**

### **1. Introduction**

The aim of my work is to give a brief overview of the common features of the housing markets of the East-Central European countries during the era of socialism and the era of transition. First I will reveal the main characteristics of housing market in the socialist era. Then I will discuss the time of transition and within it one of the most controversial issues of this time: privatization.

Housing is one of the most important sectors of the economy since it has a direct influence on the lives of the people.<sup>2</sup>

Our starting point is the “*East European housing model*” as described by József Hegedűs and Iván Tosics.

The common origin for the housing policies of the East European countries is in this model, and its main feature was *property rights* and the *planning system*. The system of property rights had changed in all the East European countries at the end of the 1940s. In some countries it meant the introduction of a totally new legal system; in other countries it “only” meant the modification of the regulation of property rights. But the result was the same everywhere. State organizations, maintenance companies and state enterprises took control over the whole rental sector. The planning system was a political category. The definition of planning is the following: power over the distribution of the economic resources of society,

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<sup>1</sup> This study is the written version of the presentation which was held by the author in Pécs at the 4<sup>th</sup> International Interdisciplinary Grastyán Conference Pécs 2012.

<sup>2</sup> Palacin, Jose and Shelburne, Robert C.: The private housing market in Eastern Europe and the CIS. [http://www.unece.org/fileadmin/DAM/oes/disc\\_papers/ECE\\_DP\\_2005-5.pdf](http://www.unece.org/fileadmin/DAM/oes/disc_papers/ECE_DP_2005-5.pdf) p. 37. downloaded 06.04.2012

which meant that the key decisions were made by this planning system, for instance the reduction of the influence of the demand side by low wage levels.<sup>3</sup>

In the “East European housing model,” the state controlled both the demand and the supply of housing and did not allow market conditions. Typical characteristics were the measures against “luxury dwellings,” the policy of “closed cities” and the “one family one dwelling” principle.<sup>4</sup> The difference among the housing systems of the East European countries was how important the state was regarding these characteristics.<sup>5</sup>

## 2. The Socialist Era

In the socialist orthodoxy housing, was considered more a “social” than an “economic” sector.<sup>6</sup>

It is possible to set up *a general pattern of development* and divide the socialist era into certain periods regarding housing policies but the dates of the periods may differ in each country:

- the 1950s: efforts to establish total control over the housing sector by the state, the level of housing production was low,
- late 1950s: the housing question got higher priority due to the growing political unrest and by the will to improve living standards and satisfy housing needs,
- the late 1960s and 1970s: huge state building industries were established and new state construction became the dominating factor because of optimistic future forecasts and rapid economic development,
- from the end of the 1970s: to avoid the collapse of the housing market, private housing was granted more space. The economic crisis put an end to the growing state housing sector, since state housing placed a heavy burden on the state budget,

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<sup>3</sup> József Hegedűs and Iván Tosics (1992): Past tendencies and recent problems of the East European housing model. In: Bengt Turner, József Hegedűs and Iván Tosics (eds.): *The Reform of Housing in Eastern Europe and the Soviet Union*. Routledge. pp. 253-254.

<sup>4</sup> József Hegedűs and Iván Tosics: *A Közép-kelet Európai lakásrendszerek átalakulása*, [http://www.eukn.org/Hungary/hu\\_en/E\\_library/Housing/Housing\\_Policy/Housing\\_Policy/Transformation\\_of\\_the\\_East\\_Central\\_European\\_Housing\\_Systems](http://www.eukn.org/Hungary/hu_en/E_library/Housing/Housing_Policy/Housing_Policy/Transformation_of_the_East_Central_European_Housing_Systems) p. 1. downloaded 06.04.2012

<sup>5</sup> József Hegedűs and Iván Tosics: *A Közép-kelet Európai lakásrendszerek átalakulása*, [http://www.eukn.org/Hungary/hu\\_en/E\\_library/Housing/Housing\\_Policy/Housing\\_Policy/Transformation\\_of\\_the\\_East\\_Central\\_European\\_Housing\\_Systems](http://www.eukn.org/Hungary/hu_en/E_library/Housing/Housing_Policy/Housing_Policy/Transformation_of_the_East_Central_European_Housing_Systems) p. 1. downloaded 06.04.2012

<sup>6</sup> József Hegedűs – Stephen K. Mayo – Iván Tosics: *Transition of the housing sector in the East Central European countries*. [http://pdf.usaid.gov/pdf\\_docs/PNACA825.pdf](http://pdf.usaid.gov/pdf_docs/PNACA825.pdf) p. 2. downloaded 06.04.2012

- in the 1950s and 1960s political factors dominated the changes, which meant that the periods which fell into these decades were more unified.<sup>7</sup>

Here are the characteristics that different authors considered as the “common features” of the East European housing model:

*Bengt Turner* mentions the following:

- the introduction of socialism after the Second World War meant the nationalization of private property and the wipeout of private landlords, or the restriction of their rights,
- properties were put in the hands of the local political committees, which were responsible for the allocation and maintenance of dwellings,
- construction of public housing in high-rise estates,
- extreme shortage of dwellings. The means to justify such a housing policy of shortages were different, but the aim was the same: to ensure a sufficient construction of flats under state supervision,
- when the socialists seized state power, the share of home ownership was large in most of these countries and the socialist countries tried to starve the home ownership sector,
- during the 1970s and 1980s, the housing sector changed and a favorable policy emerged.<sup>8</sup>

According to *Paul Balchin* the common features were:

- almost the complete absence of a private rental sector,
- the shortage of dwellings,
- owner-occupation received little assistance from the state,
- private landlords had very restricted rights,
- the level of house building increased in the 1970s,
- top priority was given the investment in heavy industry and not in the construction of flats,
- the landlord was the state, represented by a local, state owned maintenance companies,

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<sup>7</sup> József Hegedűs and Iván Tosics (1992): Past tendencies and recent problems of the East European housing model. In: Bengt Turner, József Hegedűs and Iván Tosics (eds.): *The Reform of Housing in Eastern Europe and the Soviet Union*. Routledge. p. 256.

<sup>8</sup> Turner, Bengt (1992): Housing reforms in Eastern Europe. In: Bengt Turner, József Hegedűs and Iván Tosics (eds.): *The Reform of Housing in Eastern Europe and the Soviet Union*. Routledge. p. 2.

- low rents were set by the central government and utilities were subsidized.<sup>9</sup>

He also mentions some flaws of the systems, like 1) the costs of producing housing and the costs of associated services were not reflected in the rent; 2) the large supply subsidies were badly targeted, and usually went to households who lived in better, bigger units; 3) low rents prevented household mobility and encouraged under occupancy. The system did not force families to move to a more appropriate accommodation when the family decreased; 4) tenants enjoyed ownership rights; 5) rents failed to cover maintenance and repair costs.<sup>10</sup> The following section gives details about some of these features.

#### *Private property*

Government decisions could change the proportion of private ownership. In the East European countries, even the security of private property was different, but the occupants of state-owned flats enjoyed some right to transfer their right of occupancy through the black market. There was a contradiction in this socialist housing system. Theoretically the state had almost total control over the private sphere of society, but individuals and firms had a huge influence over the real use of property.<sup>11</sup>

#### *Rents, housing prices, subsidies*

In the socialist period, rents were below maintenance and operation costs.<sup>12</sup> At the end of the 1980s, rents covered only about the 20-30% of the operating costs, and in 1990s the rents in the East European countries were lower than the “normal level” in West Europe: around 5.7 % of the household incomes instead of 15,9 % in Western Europe.<sup>13</sup> Costs of heating and electricity in 1990 were still below market prices.<sup>14</sup> The selling prices of housing were also distracted from market prices and were high compared to the low rental prices relative to incomes.<sup>15</sup> It was hard to get a flat allocated, but the families, who were lucky

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<sup>9</sup> Balchin, Paul (1996): Introduction to housing in transition. In: Paul Balchin (ed.): Housing Policy in Europe. Routledge. pp. 231-236.

<sup>10</sup> Balchin, Paul (1996): Introduction to housing in transition. In: Paul Balchin (ed.): Housing Policy in Europe. Routledge. pp. 236-237.

<sup>11</sup> József Hegedűs and Iván Tosics (1992): Past tendencies and recent problems of the East European housing model. In: Bengt Turner, József Hegedűs and Iván Tosics (eds.): The Reform of Housing in Eastern Europe and the Soviet Union. Routledge. p. 254.

<sup>12</sup> József Hegedűs – Stephen K. Mayo – Iván Tosics: Transition of the housing sector in the East Central European countries. [http://pdf.usaid.gov/pdf\\_docs/PNACA825.pdf](http://pdf.usaid.gov/pdf_docs/PNACA825.pdf) p. 24. downloaded 06.04.2012

<sup>13</sup> József Hegedűs and Iván Tosics: A Közép-kelet Európai lakásrendszerek átalakulása, [http://www.eukn.org/Hungary/hu\\_en/E\\_library/Housing/Housing\\_Policy/Housing\\_Policy/Transformation\\_of\\_the\\_East\\_Central\\_European\\_Housing\\_Systems](http://www.eukn.org/Hungary/hu_en/E_library/Housing/Housing_Policy/Housing_Policy/Transformation_of_the_East_Central_European_Housing_Systems) pp. 5-6. downloaded 06.04.2012

<sup>14</sup> József Hegedűs – Stephen K. Mayo – Iván Tosics: Transition of the housing sector in the East Central European countries. [http://pdf.usaid.gov/pdf\\_docs/PNACA825.pdf](http://pdf.usaid.gov/pdf_docs/PNACA825.pdf) p. 9. downloaded 06.04.2012

<sup>15</sup> József Hegedűs – Stephen K. Mayo – Iván Tosics: Transition of the housing sector in the East Central European countries. [http://pdf.usaid.gov/pdf\\_docs/PNACA825.pdf](http://pdf.usaid.gov/pdf_docs/PNACA825.pdf) p. 3. downloaded 06.04.2012

enough to get a one received more than “just a flat,” a “Christmas present” as well of state subsidies.<sup>16</sup>

Although communal ownership of land, (one of the three main factors of production), was at the heart of the communist ideology, an *informal property market* existed in most of the transition countries.<sup>17</sup> This informal or “second” housing market came to being because of the flaws of the housing system.<sup>18</sup> The lack of a well developed rental market restricted mobility.<sup>19</sup>

Many large households occupied small dwellings and many small families occupied large dwellings compared to the market economies.<sup>20</sup>

The *housing shortage* was a permanent phenomenon, both in quality and quantity. Governments tried to solve the problem by eliminating the qualitative housing shortage, but as Kornai stated, a housing policy which tries to eliminate the housing shortage from the supply side is hopeless, since the demand for dwellings is almost insatiable.<sup>21</sup> The housing shortage was mainly caused by the rent policy which did not force the households to economize with costs, and this and the surplus in the private sector in the form of unused, empty private dwellings led to an irrational use of the existing housing stock.<sup>22</sup>

Housing had a low priority in the socialist investment policy, which was in contradiction with the socialist ideology of housing which stated that the role of housing is very important; it was one of the main proofs of the superiority of the system. As a result of these two different points of view, from the 1960s the state budgets of the East European

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<sup>16</sup> József Hegedűs and Iván Tosics (1992): Past tendencies and recent problems of the East European housing model. In: Bengt Turner, József Hegedűs and Iván Tosics (eds.): *The Reform of Housing in Eastern Europe and the Soviet Union*. Routledge. p. 255.

<sup>17</sup> Charman, John: *Central and Eastern Europe: the Development of the Real Estate Market in the Transition Economies* <http://www.lincolnst.edu/subcenters/property-valuation-and-taxation-library/dl/charman.pdf> p. 2. downloaded 06.04.2012

<sup>18</sup> József Hegedűs and Iván Tosics: *A Közép-kelet Európai lakásrendszerek átalakulása*, [http://www.eukn.org/Hungary/hu\\_en/E\\_library/Housing/Housing\\_Policy/Housing\\_Policy/Transformation\\_of\\_the\\_East\\_Central\\_European\\_Housing\\_Systems](http://www.eukn.org/Hungary/hu_en/E_library/Housing/Housing_Policy/Housing_Policy/Transformation_of_the_East_Central_European_Housing_Systems) p. 1. downloaded 06.04.2012

<sup>19</sup> Palacin, Jose and Shelburne, Robert C.: *The private housing market in Eastern Europe and the CIS*. [http://www.unece.org/fileadmin/DAM/oes/disc\\_papers/ECE\\_DP\\_2005-5.pdf](http://www.unece.org/fileadmin/DAM/oes/disc_papers/ECE_DP_2005-5.pdf) p. 7. downloaded 06.04.2012

<sup>20</sup> József Hegedűs – Stephen K. Mayo – Iván Tosics: *Transition of the housing sector in the East Central European countries*. [http://pdf.usaid.gov/pdf\\_docs/PNACA825.pdf](http://pdf.usaid.gov/pdf_docs/PNACA825.pdf) p. 7. downloaded 06.04.2012

<sup>21</sup> Kornai János: *A hiány*. Közgazdasági és Jogí Kőnyvkiadó, Budapest, 1982. p. 519. For more details see pages 518-526.

<sup>22</sup> József Hegedűs and Iván Tosics (1992): Past tendencies and recent problems of the East European housing model. In: Bengt Turner, József Hegedűs and Iván Tosics (eds.): *The Reform of Housing in Eastern Europe and the Soviet Union*. Routledge. p. 256.

countries on housing were increased and resulted in a huge mass construction programs.<sup>23</sup> The main form of mass construction became the prefab panel technology, which was not cheaper compared to the traditional construction methods, but much faster.

There are some institutions which strengthen the housing market, but they did not exist during the socialist era. A well functioning real estate market consists of the following interacting institutions and sectors like the banking, construction, insurance the legal system and government. This structure has been established in different East Central European countries with varied speed. The Länder of the former GDR were the fastest to adapt to the new system).<sup>24</sup>

### **3. The Era of Transition**

Around 1989 there market conditions began to be introduced in the economies of the socialist East European countries where the GDR, Poland, and Hungary were starting to accept private companies. This was a reaction to the worsening economic situation. The housing situation was very unsatisfactory regarding quality and space. In some countries, the changes in the housing market and housing policy came earlier than the changes in the other areas of the economy.<sup>25</sup>

The split from the common model was caused by political changes in Yugoslavia, or by economic changes in Hungary. These countries decreased the state dominance over some sectors, and developed important sub-models. In these countries, the changes came earlier in the housing sector than the in political sector.<sup>26</sup>

*The starting point of the changes in housing policies was that* past policies had caused the housing sector to perform quiet differently from the market-type housing sectors. The new

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<sup>23</sup> József Hegedűs and Iván Tosics (1992): Past tendencies and recent problems of the East European housing model. In: Bengt Turner, József Hegedűs and Iván Tosics (eds.): The Reform of Housing in Eastern Europe and the Soviet Union. Routledge. p. 255.

<sup>24</sup> Palacin, Jose and Shelburne, Robert C.: The private housing market in Eastern Europe and the CIS. [http://www.unece.org/fileadmin/DAM/oes/disc\\_papers/ECE\\_DP\\_2005-5.pdf](http://www.unece.org/fileadmin/DAM/oes/disc_papers/ECE_DP_2005-5.pdf) p. 8. downloaded 06.04.2012

<sup>25</sup> Turner, Bengt (1992): Housing reforms in Eastern Europe. In: Bengt Turner, József Hegedűs and Iván Tosics (eds.): The Reform of Housing in Eastern Europe and the Soviet Union. Routledge. p. 1.

<sup>26</sup> József Hegedűs and Iván Tosics (1992): Past tendencies and recent problems of the East European housing model. In: Bengt Turner, József Hegedűs and Iván Tosics (eds.): The Reform of Housing in Eastern Europe and the Soviet Union. Routledge. p. 257.

governments had to restructure the housing policies under the pressure of the macroeconomic and political situation.<sup>27</sup>

According to Bengt Turner, the changes were caused by the push and pull factors:

- push factors were: the increasing unpopularity of high rise estates, mass construction could not solve the problems of housing shortage etc.,
- a pull factor was the growing trend towards privatization.<sup>28</sup>

Two new trends emerged: *privatization and democratization*, and had serious consequences for the housing sector, but the housing never played a significant role in the political changes.<sup>29</sup>

### **3.1. Privatization**

Privatization is described by Hegedűs-Mayo-Tosics as “the biggest wealth transfer” in such a short period.<sup>30</sup>

The administrative features of privatization were different among the countries. In the most of the countries it was administrated at the national level, but in Latvia, Poland, the Czech Republic at the local level, which resulted in a very different treatment of similar households.<sup>31</sup>

Privatization was quick in countries that had high rates of private ownership in Hungary, Bulgaria, Slovenia, Romania, and took longer in Poland, Slovakia, the Czech Republic. It created a tenure structure in which owner occupation was high higher than in France or Germany.<sup>32</sup>

Paul Balchin differentiates amongst three different forms of privatization:

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<sup>27</sup> József Hegedűs – Stephen K. Mayo – Iván Tosics: Transition of the housing sector in the East Central European countries. [http://pdf.usaid.gov/pdf\\_docs/PNACA825.pdf](http://pdf.usaid.gov/pdf_docs/PNACA825.pdf) p. 1. downloaded 06.04.2012

<sup>28</sup> Turner, Bengt (1992): Housing reforms in Eastern Europe. In: Bengt Turner, József Hegedűs and Iván Tosics (eds.): The Reform of Housing in Eastern Europe and the Soviet Union. Routledge. p. 3.

<sup>29</sup> József Hegedűs and Iván Tosics (1992): Past tendencies and recent problems of the East European housing model. In: Bengt Turner, József Hegedűs and Iván Tosics (eds.): The Reform of Housing in Eastern Europe and the Soviet Union. Routledge. p. 258.

<sup>30</sup> József Hegedűs – Stephen K. Mayo – Iván Tosics: Transition of the housing sector in the East Central European countries. [http://pdf.usaid.gov/pdf\\_docs/PNACA825.pdf](http://pdf.usaid.gov/pdf_docs/PNACA825.pdf) p. 1. downloaded 06.04.2012

<sup>31</sup> József Hegedűs – Stephen K. Mayo – Iván Tosics: Transition of the housing sector in the East Central European countries. [http://pdf.usaid.gov/pdf\\_docs/PNACA825.pdf](http://pdf.usaid.gov/pdf_docs/PNACA825.pdf) p. 16. downloaded 06.04.2012

<sup>32</sup> Palacin, Jose and Shelburne, Robert C.: The private housing market in Eastern Europe and the CIS. [http://www.unece.org/fileadmin/DAM/oes/disc\\_papers/ECE\\_DP\\_2005-5.pdf](http://www.unece.org/fileadmin/DAM/oes/disc_papers/ECE_DP_2005-5.pdf) pp. 4-5. downloaded 06.04.2012

- properties were transferred from state ownership to their former private owners or to their heirs through the process of restitution (Poland, Czech Republic),
- state cooperatives were converted into condominiums (Czechoslovakia in 1992., Poland in 1993.),
- state housing was sold to existing tenants at a discount prize.<sup>33</sup>

From a different point of view, Iván Illés defines the following forms of privatization:

- Transferring the flats to tenants free or at very low prices. This form was not used in the GDR, and in Bulgaria it had little importance since 93% of the flats were already privately owned.
- Restitution: returning flats to the original owners was an important form of privatization in the GDR, in the Czech Republic, and Slovakia.<sup>34</sup>
- In countries in which the communist distribution ideologies were taken seriously, the privatization process caused serious tension. To solve this problem, the governments introduced a system of “privatization by coupons.” In the Ukraine, flats were transferred into the ownership of households for free. The households who did not rent flats, but had bought the flats before privatization or had already paid the price were given a certain amount of money in coupons. Unfortunately the coupons lost their value very quickly.<sup>35</sup>

Privatization was interpreted by most of the Eastern European housing officials as “the transfer of public rental housing to individuals.” The problems with this interpretation were that:

- it only functioned with extremely low selling prices because of the low incomes of these countries,
- maintenance problems were not solved with the privatization
- the housing stock was sold for a very low prices as a way to make money quickly.<sup>36</sup>

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<sup>33</sup> Balchin, Paul (1996): Introduction to housing in transition. In: Paul Balchin (ed.): Housing Policy in Europe. Routledge. pp. 239-240.

<sup>34</sup> By 1994 most of the countries had restituted between 2-10% of their public housing stock. József Hegedűs – Stephen K. Mayo – Iván Tosics: Transition of the housing sector in the East Central European countries. [http://pdf.usaid.gov/pdf\\_docs/PNACA825.pdf](http://pdf.usaid.gov/pdf_docs/PNACA825.pdf) p. 20. downloaded 06.04.2012

<sup>35</sup> Illés Iván (2002): Közép- és délkelet Európa az ezredfordulón Átalakulás, integráció, régiók. Dialóg Campus. Budapest-Pécs. pp. 174-175.

<sup>36</sup> József Hegedűs and Iván Tosics (1992): Past tendencies and recent problems of the East European housing model. In: Bengt Turner, József Hegedűs and Iván Tosics (eds.): The Reform of Housing in Eastern Europe and the Soviet Union. Routledge. p. 260.



The main philosophy of privatization should have been the following: “not to hand out but rather to place it into the hands of a better owner,<sup>37</sup>” – as József Hegedűs and Iván Tosics quote Kornai.<sup>38</sup>

With privatization a new situation arose for households:

- prices of basic goods increased. Earlier there was a high state subsidy for these goods,
- high standard and high quality services and goods became available for high prices. Demand was limited only by purchasing power, not by shortages.<sup>39</sup>

In Hungary, Slovenia, Albania, Croatia, Bulgaria, Lithuania, Romania a housing system developed due to privatization characterized by the following features:

- high share of owner occupied housing<sup>40</sup>,
- very small public rental sector,
- insignificant private rental sector.<sup>41</sup>

More institutions became active in the housing sector. After restrictions on property rights were lifted, the investment in housing became even more attractive and speculative tendencies emerged. With the changes, the state practically withdrew<sup>42</sup> from the housing market.<sup>43</sup>

After introducing market conditions into the housing system, it became clear that investment in state housing and in renovation would only be possible if the rents were

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<sup>37</sup> Better owners are nonprofit organizations, cooperatives, local governments. József Hegedűs and Iván Tosics (1992): Past tendencies and recent problems of the East European housing model. In: Bengt Turner, József Hegedűs and Iván Tosics (eds.): The Reform of Housing in Eastern Europe and the Soviet Union. Routledge. p. 260.

<sup>38</sup> József Hegedűs and Iván Tosics (1992): Past tendencies and recent problems of the East European housing model. In: Bengt Turner, József Hegedűs and Iván Tosics (eds.): The Reform of Housing in Eastern Europe and the Soviet Union. Routledge. p. 260.

<sup>39</sup> József Hegedűs and Iván Tosics (1992): Past tendencies and recent problems of the East European housing model. In: Bengt Turner, József Hegedűs and Iván Tosics (eds.): The Reform of Housing in Eastern Europe and the Soviet Union. Routledge. p. 262.

<sup>40</sup> A lot of poor families had to become owners without the proper means for renovation and maintenance. József Hegedűs – Stephen K. Mayo – Iván Tosics: Transition of the housing sector in the East Central European countries. [http://pdf.usaid.gov/pdf\\_docs/PNACA825.pdf](http://pdf.usaid.gov/pdf_docs/PNACA825.pdf) p. 47. downloaded 06.04.2012

<sup>41</sup> József Hegedűs – Stephen K. Mayo – Iván Tosics: Transition of the housing sector in the East Central European countries. [http://pdf.usaid.gov/pdf\\_docs/PNACA825.pdf](http://pdf.usaid.gov/pdf_docs/PNACA825.pdf) p. 47. downloaded 06.04.2012

<sup>42</sup> The private-sector investment had been expected to compensate – in the social housing sector – the reduction of state assistance. Balchin, Paul (1996): Introduction to housing in transition. In: Paul Balchin (ed.): Housing Policy in Europe. Routledge. p. 238.

<sup>43</sup> József Hegedűs and Iván Tosics (1992): Past tendencies and recent problems of the East European housing model. In: Bengt Turner, József Hegedűs and Iván Tosics (eds.): The Reform of Housing in Eastern Europe and the Soviet Union. Routledge. p. 258.

increased to market prices and subsidies were better targeted to lower-income households. These were the expectations but the changes proceeded slowly.<sup>44</sup>

Rent increases were inevitable; experts agreed that such rents needed to be high enough to cover the minimum maintenance costs. The introduction of a household-oriented subsidy system was essential, since housing subsidies are among the few means which are compatible with market conditions and have equalizing effects. However, problems emerged like the shortcomings of the administrative systems, poor registration of household's income and political arguments that it is too centralizing.<sup>45</sup>

The physical condition of the multi-family rental stock depended on the availability and on the allocation of subsidies. The majority of the housing stock deteriorated whilst rental houses with higher status residents and in better locations were kept in a good shape. These homes had been privatized first, and the remaining part consisted of low quality, run down buildings.<sup>46</sup>

According to Hegedűs-Mayo-Tosics, the transition period can be divided into two phases:<sup>47</sup>

In the *first phase*, the main goals were to dissolve the key elements of the previous system, to strengthen individual property rights, decrease state control and state subsidies etc. The sector acted as a “shock absorber,” since “...the sector was in effect set free to respond to the forces of economic restructuring, with few government led initiatives to support levels of production and investment, with massive drops in subsidies for housing and with little in the way of coordinated planning to expand or even maintain the sector's role in the economy, but with regulations limiting the direct effects of price increases on the population.”<sup>48</sup> The politicians used the housing sector as a vehicle for easing the pain caused by the economic restructuring by privatizing the state rental housing stock at low prices. With greater macroeconomic stability and with the restructuring the housing system, the *second phase*

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<sup>44</sup> Balchin, Paul (1996): Introduction to housing in transition. In: Paul Balchin (ed.): Housing Policy in Europe. Routledge. p. 238.

<sup>45</sup> József Hegedűs and Iván Tosics (1992): Past tendencies and recent problems of the East European housing model. In: Bengt Turner, József Hegedűs and Iván Tosics (eds.): The Reform of Housing in Eastern Europe and the Soviet Union. Routledge. pp. 260-261.

<sup>46</sup> József Hegedűs – Stephen K. Mayo – Iván Tosics: Transition of the housing sector in the East Central European countries. [http://pdf.usaid.gov/pdf\\_docs/PNACA825.pdf](http://pdf.usaid.gov/pdf_docs/PNACA825.pdf) p. 24. downloaded 06.04.2012

<sup>47</sup> József Hegedűs – Stephen K. Mayo – Iván Tosics: Transition of the housing sector in the East Central European countries. [http://pdf.usaid.gov/pdf\\_docs/PNACA825.pdf](http://pdf.usaid.gov/pdf_docs/PNACA825.pdf) pp. 34-41. downloaded 06.04.2012. In the following I sum up the main features of these two phases.

<sup>48</sup> József Hegedűs – Stephen K. Mayo – Iván Tosics: Transition of the housing sector in the East Central European countries. [http://pdf.usaid.gov/pdf\\_docs/PNACA825.pdf](http://pdf.usaid.gov/pdf_docs/PNACA825.pdf) pp. 34-35. downloaded 06.04.2012

began. Following problems were mentioned by Hegedüs-Mayo-Tosics in the year 1996. In the second phase there was: 1) the restructuring of the tenure system, 2) distorted prices and affordability problems, 3) housing quality and quantity, 4) housing production and investment, 5) housing finance reforms, 6) subsidies, 7) institutional discrepancies. The main aim of the second phase was to move towards a market housing system in which the housing sector is a normal part of the whole economic system. It does not require too many budgetary resources and is operated by the logic of the regulated market economy. The main problems in the second phase were problems of institutional discrepancies, housing affordability and housing market disequilibrium.<sup>49</sup>

At the beginning of the transition there was the theory that the housing sector should contribute to the stability of the economy and to the restructuring, and a second the theory of “repressed demand.” During socialism the investment in housing was smaller than demand, which meant that the liberation of the market would increase the demand for dwellings. These two theories were not verified at the time since the housing sector did not contribute to the stability of the economy because housing construction decreased after 1988 and the shift towards market took longer than expected. In the first period of the transition, the housing sector was more a shock-absorber and did not have a marketizing effect.<sup>50</sup>

In Eastern Europe the legal system needed for the operation of multiple apartment buildings did not exist before the beginning of the privatization. People became owners without existing rules and regulations on how to maintain buildings<sup>51</sup>. A proper financial system was missing; mortgages practically did not exist, and interest rates were low and subsidized.<sup>52</sup>

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<sup>49</sup> The first two problems can be discussed on a general level, whilst the third one on sub-regional level. József Hegedüs – Stephen K. Mayo – Iván Tosics: Transition of the housing sector in the East Central European countries. [http://pdf.usaid.gov/pdf\\_docs/PNACA825.pdf](http://pdf.usaid.gov/pdf_docs/PNACA825.pdf) p. 41. downloaded 06.04.2012

<sup>50</sup> József Hegedüs and Iván Tosics: A Közép-kelet Európai lakásrendszerek átalakulása, [http://www.eukn.org/Hungary/hu\\_en/E\\_library/Housing/Housing\\_Policy/Housing\\_Policy/Transformation\\_of\\_the\\_East\\_Central\\_European\\_Housing\\_Systems](http://www.eukn.org/Hungary/hu_en/E_library/Housing/Housing_Policy/Housing_Policy/Transformation_of_the_East_Central_European_Housing_Systems) pp. 11-12. downloaded 06.04.2012

<sup>51</sup> In Poland –for instance - the form “block of condominiums” did not exist until January, 1995; and people who lived in privatized flats had to pay the rent still to local governments and their ownership was not recorded in the cadastral register. József Hegedüs and Iván Tosics: A Közép-kelet Európai lakásrendszerek átalakulása, [http://www.eukn.org/Hungary/hu\\_en/E\\_library/Housing/Housing\\_Policy/Housing\\_Policy/Transformation\\_of\\_the\\_East\\_Central\\_European\\_Housing\\_Systems](http://www.eukn.org/Hungary/hu_en/E_library/Housing/Housing_Policy/Housing_Policy/Transformation_of_the_East_Central_European_Housing_Systems) endnote 11. downloaded 06.04.2012

<sup>52</sup> József Hegedüs and Iván Tosics: A Közép-kelet Európai lakásrendszerek átalakulása, [http://www.eukn.org/Hungary/hu\\_en/E\\_library/Housing/Housing\\_Policy/Housing\\_Policy/Transformation\\_of\\_the\\_East\\_Central\\_European\\_Housing\\_Systems](http://www.eukn.org/Hungary/hu_en/E_library/Housing/Housing_Policy/Housing_Policy/Transformation_of_the_East_Central_European_Housing_Systems) p. 13. downloaded 06.04.2012

#### 4. Summary

The failure of the planning system and the unclear regulation of the property rights played an important role in the collapse of the East European housing model. At the end of the 1970s, it became clear that more radical changes were required than had been presumed before.<sup>53</sup> The countries of Eastern Europe introduced market conditions into their economies because of economic and political pressure at the end of the 1980s. At the beginning of the 1990s, the centrally planned economies had been replaced which was a shock therapy.<sup>54</sup> In supporting private ownership<sup>55</sup>, the governments saw a solution to avoid social unrest, which could have followed the unsatisfactory economic and housing situation; and liberalization of the attitude towards ownership brought a lot of changes in the housing market as it became possible to build privately owned individual dwellings, and to form private cooperatives (in some countries), which were allowed to purchase buildings that had belonged to the public sector.<sup>56</sup>

With the privatization of the housing stock, the whole housing policy *had to be based on a different political philosophy*. However, privatization did not solve all the problems which emerged during socialism, and created some new problems and mistakes, like:

- privatization to sitting tenants. In the most of these countries this had happened before the establishment of a workable form of mixed and private ownership,
- restitution of property to former owners. It had been conceived in the absence of clear policies to establish a safety net capable of easing the burden the transition had imposed on tenants,
- energy prices had been quickly moved to world level, but other prices like rents were not raised to this level,
- privatization reduced the housing stock available for rental, since the tenants became owners,

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<sup>53</sup> József Hegedűs and Iván Tosics (1992): Past tendencies and recent problems of the East European housing model. In: Bengt Turner, József Hegedűs and Iván Tosics (eds.): The Reform of Housing in Eastern Europe and the Soviet Union. Routledge. p. 257.

<sup>54</sup> Balchin, Paul (1996): Introduction to housing in transition. In: Paul Balchin (ed.): Housing Policy in Europe. Routledge. p. 231.

<sup>55</sup> Private housing existed during the socialist era, but there were elements absent which were needed to establish market conditions. Palacin, Jose and Shelburne, Robert C.: The private housing market in Eastern Europe and the CIS. [http://www.unece.org/fileadmin/DAM/oes/disc\\_papers/ECE\\_DP\\_2005-5.pdf](http://www.unece.org/fileadmin/DAM/oes/disc_papers/ECE_DP_2005-5.pdf) p. 37. downloaded 06.04.2012

<sup>56</sup> Turner, Bengt (1992): Housing reforms in Eastern Europe. In: Bengt Turner, József Hegedűs and Iván Tosics (eds.): The Reform of Housing in Eastern Europe and the Soviet Union. Routledge. p. 3.

- the housing stock was sold cheaply which quickly raised a large amount of revenue for the state - low-price strategy.<sup>57</sup>

After the privatization period was over, the countries in East Europe *had to compare with the new situation* and had to establish a market controlled housing system.

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<sup>57</sup> József Hegedűs – Stephen K. Mayo – Iván Tosics: Transition of the housing sector in the East Central European countries. [http://pdf.usaid.gov/pdf\\_docs/PNACA825.pdf](http://pdf.usaid.gov/pdf_docs/PNACA825.pdf) p. 12 downloaded 06.04.2012. ; Palacin, Jose and Shelburne, Robert C.: The private housing market in Eastern Europe and the CIS. [http://www.unece.org/fileadmin/DAM/oes/disc\\_papers/ECE\\_DP\\_2005-5.pdf](http://www.unece.org/fileadmin/DAM/oes/disc_papers/ECE_DP_2005-5.pdf) p. 7. downloaded 06.04.2012 and Balchin, Paul (1996): Introduction to housing in transition. In: Paul Balchin (ed.): Housing Policy in Europe. Routledge. p. 239.

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