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PRACTICAL WORKSHOP ON HOUSING PRIVATIZATION

Report prepared by the delegation of Poland and the Cooperative Housing  
Foundation in cooperation with the secretariat

Introduction

1. The Practical Workshop on Housing Privatization took place in Cracow (Poland) from 30 May to 1 June 1999. It was organized by Poland's State Office of Housing and Urban Development (SOHUD) together with the Cooperative Housing Foundation (CHF) and in cooperation with the ECE secretariat.
2. Experts from Albania, Bulgaria, the Czech Republic, Estonia, Germany, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, the United Kingdom, and the United States of America attended the Workshop.
3. The Workshop aimed to encourage housing practitioners to share their experience. Participants explored their results, compared examples/models and evaluated their impact and implementation. The topic of privatization was dealt with in a multifaceted way, looking at, for instance, the change in ownership structure and its consequences on housing stock management, the interaction between the private and the public sector in housing supply and the steps necessary to improve and expand housing provision.

#### The presentation of UN/ECE housing-related activities

4. Mr. Pogozhelskis, of the ECE secretariat, presented the work of the Committee on Human Settlements, in particular its country profiles on the housing sector. The delegations of Bulgaria, Poland and Slovakia outlined the outcome of the studies that had taken place in their countries. The delegations of Lithuania and Romania reported on the progress in their forthcoming studies.

5. The session's panel consisted of: Mr. Vilius Pogozhelskis (UN/ECE), facilitator; Mr. Stoicho Motev (National Centre for Regional Development and Housing Policy, Bulgaria), country rapporteur; Mr. Zdzislaw Zydak (SOHUD), country rapporteur; and Ms. Elena Szolgayova (Agency for Housing Development, Slovakia), country rapporteur.

#### Critical assessment of the housing sector

6. Mr. Zawislak (SOHUD) outlined the housing sector reforms in the region. His presentation was based on national response papers prepared by participants prior to the workshop. He concentrated on changes and trends in the housing sector, including housing investment, finance and housing supply, as well as the housing sector's response to changes in demography and income levels. A lively discussion about the definition of some indicators followed.

#### Site visits

7. Participants received information on current Polish projects, illustrating new private and public-private collaborative efforts to supply housing, mainly new construction. Mr. Zydak (SOHUD) stressed that those projects focused on the needs of medium- and lower-income families. The introductory presentation by Ms. Hermanson (CHF, United States) provided background information on CHF activities in Poland and the common features of housing supply mainly through cooperatives with the active support of the local authorities. The following site visits took place:

(a) "Wierzbowa" development in the city of Rybnik. The mayor informed the participants of the city's efforts to build new housing and shared the positive experiences gained working closely with CHF. The director of the Agency to Support Housing Initiatives (AWIM-Rybnik) provided information on the organizational and financial aspects of the project, and explained the role of CHF in starting and carrying out the project. The project, the first in AWIM practice, had relied heavily on cooperative members' individual loans (12 loans) along with members' instalments. It had capitalized on the experience gained developing sites like the ones in Zory;

(b) "Kleszczowka" and "Okrezna" developments city of Zory. The visit illustrated the pilot CHF project in Zory. Rather than directly overseeing the project, CHF had established and trained an independent, non-governmental, facilitating agency AWIM-Zory to organize and run housing cooperatives. The members of the cooperatives had been actively involved in all decisions and had had the opportunity to make choices in the design of

their individual units. The pilot project had later been replicated in 32 locations in Poland. The interest lay in the partnership arrangements with the city authorities at the initial stage of the project;

(c) Cracow TBS Krak-System. The site provided an example of one of 158 Social Housing Associations (TBS) established in Poland. This non-profit association for rental housing had been devised by SOHUD for local authorities (Gminas) in Poland. TBS were companies established under the Commercial Code and legally registered. Their statutes were approved by SOHUD. The majority of TBS were gmina-owned. The lower-income multi-family home development had been financed by the National Housing Fund (70 per cent), tenants' security deposits indexed to inflation (10 per cent) and gmina funds;

(d) District Zabiniac of Cracow city, "Ziemi Krakowskiej" housing cooperative. The site visit turned into a "questions and answers" session with representatives of the cooperative, which builds multi-family homes. The cooperative was a good example of effective housing management, attractive design and affordable prices. Practical issues ranging from construction costs, market prices, charges for maintenance, upkeep, utilities and improvements, to rules of membership were discussed.

#### General discussion on post-privatization issues

8. The session's panel consisted of: Mr. David Dreiblatt (CHF), facilitator; Mr. Claus Hachman (GdW International Cooperative Alliance, Germany), commentator; and Mr. Marek Zawislak, rapporteur.

9. Housing reforms including privatization included, more generally, policies aimed at reasserting market forces and reducing State intervention. With respect to housing provision, they have promoted deregulation, increased the role of the private sector and lowered subsidies. Those reforms aimed to improve the economic and social efficiency of the housing delivery system, and to abolish long-standing imbalances and distortions. The restructuring of the housing sector in accordance with market principles was necessary for its integration into the economy as a whole.

10. Privatization can take different forms: privatization of public housing, transformation of cooperatives into condominiums and privatization of construction and maintenance enterprises. In some countries (e.g. in the former Czechoslovakia and Poland) cooperatives were obvious targets for privatization, as their members had already contributed towards their costs and the sums needed to complete the purchase could be small for long-term members with low outstanding debt.

11. While the extent of sales varied considerably both within and between countries, most countries adopted the low-price strategy. The discount policy gave rise to concerns about the distribution of wealth in countries in transition. While the general view is that privatization shifted wealth towards the private sector, it has increased social inequality. Those whose dwellings had a low or very low value because of its poor quality and need of repair and maintenance have lost out. On the other hand, the uniformity of

sales prices has given some privileged households easy access to low-cost housing.

12. Policy reforms and large-scale privatization have led to a new tenure structure with an increasing share of owner-occupied housing and a mixture of multiple ownership and mixed tenureships within buildings. This has complicated investment management and decision-making. Post-privatization tenure structures are in effect impeding maintenance and renewal.

13. Despite rent increases in public housing, municipal housing entails a number of problems, from mixed ownership in multi-family houses to fixed rents and relatively low total rent revenues. The revenues do not cover operating, maintenance and capital costs, leading to deferred maintenance and investment.

#### Parallel sessions in working groups

14. Two parallel sessions of four groups with a wrap-up meeting took place.

(a) Group 1: Finance

15. Ms. Judith Hermanson facilitated the session on how to make housing more affordable. Mr. Jozsef Hegedus (Metropolitan Research Institute, Hungary), Mr. Carl Coan (Coan & Lyons, United States) and Ms. Irena Herbst (BGK Bank, Poland) outlined the Hungarian, American and Polish experiences.

16. The previous housing shortage has been replaced by a shortage of affordable housing, suggesting a deepening of the housing crisis. Income differentiation has widened and had implications for the housing market. People with more disposable income have sought to achieve a better living standard and settle in a more attractive environment. This has been a catalyst for the provision of products at the top end of the housing market. It has also created a need for upgrading poor-quality housing in attractive urban areas.

17. Current mortgage arrangements, income levels and house prices make housing unaffordable for many households. Only a relatively small proportion of households is able to enter the housing market.

18. Most households entering the market will have to house themselves in the private rental sector. The size of the rental market is small and has a very low vacancy rate. Rents in urban areas are high. The demand for additional rental units in apartment buildings, especially in well-serviced, accessible locations, will be substantial.

(b) Group 2: Effective partnership

19. Mr. Michael Doyle (CHF) facilitated the session on how to foster effective interaction between public and private housing delivery sectors. Brief presentations of Czech, Bulgarian and Polish experiences were made by Mr. Karel Loucky (City Council of City Part Prague 1, Czech Republic), Ms. Maria Ivanova Spassova-Stoyanova (Bulgarian Delegation to the

Parliamentary Assembly of the Council of Europe) and Mr. Jerzy Fiszer (Habitat Consulting, Poland).

20. The transition to a market-based housing system has taken place amidst housing shortages and economic stagnation. The emerging housing markets in the countries in transition are at different stages in their development and have their own characteristics. The lack of well established institutions at the central and local levels, together with an immature housing and real estate industry and a weak financial institutional structure, contribute to the still inefficient market.

21. Key actors in the emerging housing markets are: the developers (public and private institutions or individuals); the landowners; the financial institutions; the building industry; the local housing and planning authorities; private/public landlords; and the consumers.

22. New roles and responsibilities are associated with the transformation of the housing sector along market principles. The importance of private sector activities is growing. The growth of private sector firms facilitates competition on the supply side. Those profit-motivated agents are very flexible and adaptable to the market place, which is reflected in the economics of housebuilding and the organization of housing production.

23. In parallel, the public sector's segmentation becomes clear. The State can provide income tax relief, corporate tax breaks and guarantee transfers to local budgets. The local governments become in charge of adjusting rent levels and establishing municipal loan systems. The State policy in housing is driven to articulate its instruments according to the wealth of housing consumers.

(c) Group 3: Homeowners' wishes and costs

24. Mr. Janusz Koper (Zory Municipality) facilitated the session. The experiences in striking a balance between homeowners' wishes and costs in Czech Republic, Romania, Slovakia and Poland were presented by Ms. Daniela Grabmullerova (Ministry of Regional Development, Czech Republic), Ms. Ilena Budisteanu (Urban Project, Romania), Ms. Marta Sadlonova (Slovak Union of Housing Cooperatives) and Mr. Zbyslaw Kalkowski (Union of Engineering and Construction Technicians, Poland).

25. After the political changes, countries withdrew many subsidies in the framework of an overall economic restructuring. Utility prices and rents increased. At the same time the average level of income increased much more slowly and there was substantial income differentiation. As a consequence, affordability quickly became a considerable problem: the housing expenditure of many households increased to too high a percentage of their incomes. In countries where means-tested allowance systems were not introduced, the proportion of families in arrears increased dramatically and it is only because of the existing legal/institutional/ social problems that eviction and foreclosure are still relatively rare.

26. With high inflation and rapidly escalating house prices, the capital gains of homeownership are substantial. Investment in housing is economically attractive for individual households, who channel a large part of their savings into improving their housing situation. Given the existing tenure structure, homeownership remains a feasible means of shelter for households, since access to public rental housing is limited and private renting expensive.

(d) Group 4: NGOs as partners

27. Mr. Krzysztof Kaminski (Centre for Housing Initiatives, Poland) facilitated the session on how NGOs contribute to best practices. Mr. Petru Olariu (Timisoara Federation of Tenants' Association, Romania), Mr. Stoicho Motev (National Centre for Regional Development and Housing Policy, Bulgaria), Ms. Tara Clifford (Maryland Department of Housing and Community Development, United States) and Mr. Jakub Wagnanski (Forum of Non-Government Initiatives, Poland) shared with the meeting experiences in their respective countries.

28. The discussion focused on the dissemination of best practices. The organizational goals, expertise, status and financial capabilities of NGOs can match the needs at different levels of operation. Their role in organizing and creating local users' groups and in promoting activities linked to housing supply and promotion is crucial, especially when coordinated with the local authorities.

Conclusions and recommendations

29. Today the region deals mainly with post-privatization housing issues. In the early stages of housing stock privatization, the privatization process had been an objective in itself. Today, housing policy makers recognize it as a tool for housing policy.

30. Nowadays, there is no one pattern of dealing with housing problems. Good examples in promoting cooperative homeownership and rental housing are being developed. Best practices facilitate exchange of information on housing policy implementation and, in particular, on approaches and methods concerning building materials, construction technology, costs, etc.

31. Housing policy makers should develop strategies that are both workable and financially realistic, tenure-neutral and differentiated according to set criteria and priorities. Subsidies need to be better targeted and transparent. To achieve any progress in the housing problems, emphasis needs to be on partnership between all parties involved in the housing provision system. There are clear roles and responsibilities for all those involved in the sector, including businesses and local governments, as well as central government. Housing as an essential part of the productive sector of the economy, should be seen as a key component in any transition phase and can be used as a tool to drive economic growth.

32. The shift in consumer preferences to medium- and high-density inner-city living suggests that the private apartment development industry will

continue to play a significant role in the supply of urban housing. The physical and design characteristics of apartment buildings have broadened in recent years, though there are regional/ local differences. Apartment buildings have changed from exclusively high-rise, high-density structures to more medium-rise, traditionally built structures. In recent years three- to five- storey buildings have become a common form of new apartment accommodation.

33. Notwithstanding progress, housing production capacity in the subregion remains limited because:

- Subsidies for the production of housing are being eliminated;
- The lack of serviced land has resulted in extremely high land prices in large cities;
- An absence of financing (both financial intermediaries and mortgage markets) due to high inflation and lack of market-driven prices;
- Cash payments have often become the basis for financing home construction in the absence of alternative financing and the unattractiveness of mortgages financed at a market rate;
- Private builders are servicing mainly the upper end of the housing market;
- The private development of moderately priced housing is unlikely to evolve until legal, tax and financial incentives are introduced;
- Builders, general contractors, banks, municipal governments, private entrepreneurs, State-owned enterprises, cooperatives and design professionals rarely coordinate their activities effectively.

34. Formal housing finance has remained structurally at a standstill in high-inflation countries. The absence of access to formal housing finance through financial intermediation reduces the circle of housing investors. It hampers the performance of housing markets.

35. Lack of housing finance is a major constraint on both new housing construction and renewal. As the economy becomes more stable and the legal environment is reformed, the importance of formal housing finance will grow.

36. Housing investment is expected to increase gradually. Fostering housing investment is a way of supporting structural adjustment in the economy and encouraging competition. The process of decay in the existing housing stock needs to be addressed in a comprehensive manner through public/private partnership, and a supportive legal and financial framework.

37. While the markets for new housing are expected to recover slightly, they will also become more differentiated with a marked difference between the high and low ends. A potential problem with the high end of the market is that it is small, the competition is intense and it is very customized. The housing industry must develop better capabilities to identify and cater for these newly emerging markets, with a diversity of housing forms to match diverse housing needs.

38. Non-profit organizations are increasing their role. NGOs are effective, creative and active agents between the governments and local communities.

NGOs may be active in the field of housing delivery as well as in other fields: promotion of education, know-how and dissemination of information.

Final remarks

39. More attention needs to be paid to the country profiles' follow-up activities. These would provide a useful vehicle for sharing information and experience on policy development and implementation and the role that the respective governments played in the follow-up to the profiles' recommendations.

40. A new formula to exchange information quickly should be developed thanks to electronic mail and the Internet (to access conference materials, articles and publications). The electronic media can improve workshop logistics (application forms, agenda, etc.) and provide information on its outcome.

41. The practical character of the Workshop was appreciated and emphasized by many participants. Their active involvement during the Workshop encouraged a stimulating debate.

42. The delegation of Romania announced that it was prepared to arrange the next workshop in Romania in autumn 1999. It would be devoted to the improvement of housing financing.