

ECONOMIC COMMISSION FOR EUROPE  
Geneva

COUNTRY PROFILES  
ON  
THE HOUSING SECTOR  
POLAND



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## PREFACE

This study on the Polish housing sector is the second pilot project carried out by the ECE Committee on Human Settlements to analyse housing sector reform in countries in transition. The first pilot project of this kind focused on Bulgaria and the results were published in 1996 (ECE/HBP/101).

These country-specific strategic analyses of the housing sector are intended to assist the Governments of countries in transition in improving the performance of the sector. They also aim to provide practical information to those with a special interest in the country, such as international lender and donor organizations, technical assistance agencies, or private sector investors, both within and outside the country. The objective is to identify positive trends and problem areas, so as to be able to assess the implementation of national policies and strategies, and the social and economic consequences of housing reform for the population and other major actors in the sector. The studies are the work of international teams of experts. They cooperate with all relevant governmental bodies, non-governmental organizations, local authorities and the private sector to mobilize available information sources in the country. This activity is linked to the Housing Indicators Programme of the United Nations Centre for Human Settlements (UNCHS) and the World Bank. The international team of experts also draws up recommendations for action to guide the housing sector reform towards sustainable patterns of housing development.

For the study in Poland, the international team of experts consisted of Mr. Stoicho Motev (Bulgaria), Ms. Iris Behr (Germany), Mr. Josef Hegedüs (Hungary), Mr. Alle Elbers (Netherlands), Mr. Gert A. Gundersen (Norway), and Mr. Guennadi Vinogradov (ECE secretariat). They cooperated with a national team of experts from Poland's former Ministry for Physical Planning and Construction, the Housing Research Institute, and other governmental and non-governmental bodies and organizations in Poland. The Governments of Germany, the Netherlands and Norway helped to finance the study.

## INTRODUCTION

The housing sector plays an important role in the economic and social life of any country. It has a favourable influence on the economy, accounting for about 10 to 20 per cent of total economic activity in most ECE countries. The housing sector, in view of its implications for land use, energy consumption, waste generation and water pollution, has a significant impact on the sustainability of development not only in a given country but also in the regional context.

At the same time, the housing sector with its demands on financial resources, is often considered to be in competition with industry and, as such, undeserving of special political support, especially at a time when there is a need for major economic reform and for stimulating the national economy. Such an approach is too lopsided. It should not be overlooked that the housing sector is an important part of the national economy. History shows that the housing sector has on many occasions proved to be the key to revitalizing national economies in harsh times. For example, the Great Depression in the United States created a favourable climate for federal government intervention in the housing industry. The housing industry had been in recession since the late 1920s, unemployment had reached painfully high levels, and many American homeowners could not make their mortgage payments. During the 1930s, the administration of Franklin D. Roosevelt responded by propping up the credit system that supported homeownership.<sup>1</sup> Similarly, it would not be an exaggeration to say that the role of the construction and housing industry in ECE countries was decisive in Europe's economic recovery in the post-war period of 1945-1955.

After the change in the political system in central and eastern Europe in 1989-1990, efforts were directed towards transforming centrally-planned economies into market-based ones. However, the experience of the past seven to eight years shows that transition is a very strenuous process. Most countries in transition are suffering from negative economic growth, unemployment, high inflation and falling real wages, and degradation of housing conditions.

Housing policy is an integral part of market economies and there is also a definite need for the countries in transition to provide decent housing and social protection to needy households. Moreover, the housing sector can be used as a vehicle for economic growth and development, a major factor in job creation and a source of additional income for the national budget. There is consequently a need to provide legal, institutional, man-

agement and financial advice to countries in transition to improve the environment in which the housing market operates and to build capacity in an effort to attract housing investment.

To manage the reform of the housing sector, there is a need for comprehensive action on the part of central and local authorities and the private sector, based on a coherent housing reform concept. For such a housing concept to be put into practice, the main features of transition and the different functions of the housing sector must be analysed and understood. The key issues should be identified and, on these grounds, goals and then priorities can be set.

Any subject, phenomenon, or development process, can be analysed from a variety of angles, using different approaches. Housing is an economic sector which, given its cross-sectoral nature, requires a combination of instruments and methods to understand its ongoing internal processes and the external impact from other sectors and development trends, and to suggest appropriate policies and remedial measures. There is a wide range of views on the national housing policy. Some consider housing to be a commodity that should be produced only on the basis of market mechanisms and principles. Others hold the view that satisfactory housing can be secured only through wide State involvement and regulations. However, acceptable policy solutions to housing problems and related instruments and systems can be found in between these two diverging approaches, with due regard to national traditions and realities.

Those in charge of drawing up and implementing housing policies can learn from the experience of other countries. While much advice has come from western countries and institutions, little exchange of information and experience has gone on among countries in transition to learn about how others are tackling almost identical problems. Admittedly, there are successful models in developed market countries. However, there is no single universal model, but a variety of good solutions for different problems in different countries.

To prepare and evaluate policy suggestions for transforming the housing sector from a subsystem of the planned economy into an important component of a market-based economy and for promoting the transition through the housing sector's contribution to it, the ECE Committee on Human Settlements initiated this programme element on Country Profiles. This activity is part of the restructuring efforts of the ECE Committee on Human Settlements to adjust its activities in support of action at the national level to provide adequate housing and to promote sustainable development in harmony with the Habitat Agenda adopted at the United Nations Conference on Human Settlements (Habitat II).

<sup>1</sup> A. von Hoffman, "High ambitions: the past and future of American low-income housing policy", *Housing Policy Debate*, vol. 7, No. 3, 1996, p. 425.

## CONCLUSIONS AND RECOMMENDATIONS

Before the transition, the Polish housing sector was under State control. State institutions, organizations and building enterprises played a key role in the planning and execution of housing projects. State monopoly in the housing sector meant a highly centralized institutional, administrative and financial system where access to housing was strictly controlled by local authorities and housing was distributed according to need, rather than market demand. As a result, most recently built housing estates in Poland are monotonous and the standards of their dwellings low. They also overlook environmental concerns. There are chronic housing shortages and clear evidence that households are inadequately housed.

Following the political changes in 1989, various reforms were carried out in Poland's housing sector. Housing reform was guided by a twofold objective: to reduce the budget deficit and move from a housing system based on general subsidies to a market-based housing sector. Efforts to re-establish the local self-government institutions were successful. The authorities responsible for housing have succeeded in developing a new legal framework for the housing sector. However, the stagnant trend of the housing sector has continued during the transition period, and unless it is addressed effectively, it will contribute to a number of social and economic problems, such as:

- (a) Lack of supply of housing to new households leading to an increasing housing crisis;
- (b) Constraint on mobility of labour, particularly to and within the major urban areas;
- (c) Low economic and employment growth in construction, construction-related economic activities and multiplier sectors; and
- (d) Slowdown of environmental improvement and energy efficiency.

The causes of this stagnation are complex and cannot be attributed to a single factor. However, two major reasons for the present situation are the very slowly emerging possibilities for housing finance in the private financial markets, and the massive transfer of responsibilities for housing provision from central government to the local authority level, where the ability to handle the new responsibilities has not been sufficiently developed.

Although macroeconomic development, including growth in real income, is important for the further development of housing, accelerating the transition of this sector requires changes in policy and instruments at all administrative levels.

### 1. National housing objectives

As part of its preparation for the United Nations Conference on Human Settlements (Habitat II), the Government of Poland worked out the National Plan of Action as an outline for its policy on human settlements for the period 1996-2000. According to the Government, the overall objective of the National Plan of Action is to "improve the social, economic and environmental quality of human settlements and, hence, the quality of the living and working environment of all their inhabitants." This general objective is divided into the following specific goals:

(a) *Creating opportunities in human settlements for improving people's material status, thereby reducing poverty and unemployment;*

(b) *Improving housing conditions and arresting the deterioration of the housing stock;*

(c) *Improving the state of the environment; and*

(d) *Improving the management of human settlements.*

The Government has drawn up strategies to achieve these goals:

(a) *Supporting the occupational mobility of the population;*

(b) *Improving the social and communal infrastructure;*

(c) *Creating conditions for increasing the volume of housing construction;*

(d) *Settling ownership disputes and introducing changes in the management of the housing stock;*

(e) *Introducing economically sound principles of housing management, combined with obligatory public assistance to the poorest families;*

(f) *Developing various systems of housing construction financing in the private and public sectors;*

(g) *Developing new institutions, a legal framework and organizational structures;*

(h) *Reducing demand for energy by expanding the use of energy-saving building technology and improving thermal insulation in the existing building stock;*

(i) *Improving the instruments for the management of human settlements;*

(j) *Creating institutions and organizations, appropriate to a market economy, to take on some of the*



tasks of governmental administrations and local authorities;

(k) *Formulating strategies for sustainable city development by local authorities; and*

(l) *Training local government staff.*

This set of general objectives, specific goals and strategies of the National Plan of Action constitutes a

comprehensive approach to the housing sector's development. Nevertheless, there is also a need to develop a clear national housing policy. In this policy the Government should state its overall view on the problems and challenges within the housing sector, set out priorities and objectives with regard to these challenges, and harmonize its present and new policy instruments to reach these objectives. The national housing policy should also provide a framework for all other participants in Poland's housing sector.

### Box 1

*Accelerating the transition of Poland's housing sector requires a clearly stated national housing policy. The Government should give priority to the development of this policy by defining:*

- (a) *Crucial problems, challenges and strategies;*
- (b) *Priorities and objectives;*
- (c) *The existing policy instruments and their intended effects;*
- (d) *Proposed new policy instruments and their expected effects;*
- (e) *Expected results and a time-frame.*

## 2. Housing as a political priority

During the first years of transition housing was not a political priority, neither at the national nor the local level. This lack of political commitment, combined with drastic macroeconomic changes contributed to the negative development of the housing sector during those early years.

In 1993-1994 there was a significant shift in political priority in favour of the housing sector. During 1994-1997 the framework conditions of housing development improved dramatically, particularly at the national level, and in 1997 the housing sector was put under the Prime Minister's responsibility.

However, the main tool for housing provision to be organized at the national level—adequate financial instruments—is still missing, or rather insufficiently developed, to make the housing sector a real contributor to economic and social development in Poland. In particular, there is a need to provide financial instruments and assistance for three major tasks:

- (a) Investment in maintenance and repair of the existing housing stock;
- (b) Financing of new municipal rental housing; and
- (c) A more efficiently targeted housing allowance system, bringing about greater rental flexibility.

Out of these three tasks the most urgent is the first. The need for an effective, substantial national investment fund for the existing housing stock is considered to be the most pressing. Investment in the existing stock will also directly and effectively contribute to energy conservation and environmental improvements.

Although housing has also moved up the municipal agenda during the latter stage of the transition period, this has not yet resulted in practical changes within the local structures responsible for housing in municipalities. There is still an enormous lack of municipal housing development strategies, and of political and administrative structures necessary to work out and support such strategies. Due to the massive transfer of housing responsibilities from the State to the municipal level, which has already taken place, the bottleneck arising from the lack of municipal capacity for housing development and related structures must be considered as critical. Thus, in addition to the need for new housing finance instruments, the Polish housing sector's further development is crucially dependent on a speedy and efficient transformation at the municipal level (see also the recommendations in boxes 2 to 4).

## 3. Existing housing stock and new construction

As noted above, the housing sector has not, so far, contributed to the generally successful transition process in Poland. An illustration of this is the dramatic fall in production of new housing. In 1989 total new construction stood at 150,000 housing units; in 1996 it was down to 55,000 units. This decline in production is accompanied by a significant change in the shares of the public and private sector construction, in favour of the private sector. Since the share of cooperative housing construction in Poland today could also be included in the private sector, the public sector's share in new construction fell from 65 per cent in 1990 (including cooperatives) to 10 per cent in 1994 (excluding cooperatives). Although other statistics and time series can be used to quantify or partly explain the above trends, there is a sound basis

for drawing some major conclusions on housing construction and supply in Poland.

#### Concerning the construction of new housing:

(a) The gap resulting from the withdrawal by the State of its direct involvement in the construction of new housing has, so far, not been bridged by local authorities or the private sector;

(b) The sharp decline in the construction of new housing contributes to the degradation of housing standards;

(c) The low rate of new construction means that Poland loses employment and growth potential, including multiplier effects, which could be realized; and

(d) The continuous low rate of new supply of housing severely restricts household mobility to and within the urban areas. This represents serious obstacles to labour mobility, and reduces the potential for accelerated economic growth.

#### Concerning the existing housing stock:

Irrespective of what can be achieved in the short and medium term in the area of new housing construction, the major part of Poland's future housing stock already exists. The capacity and quality of the future housing stock therefore depend on how the existing housing stock is maintained and upgraded. Concern for the standard and improvements of the existing housing stock must be central in housing policy. It is estimated that some 800,000 housing units should be demolished, whilst some 500,000 to 600,000 housing units are in need of major renovation work. Although these estimates are debatable, the fact remains that the existing housing stock represents a major and urgent challenge. The reasons for this are:

(a) The political system before transition concentrated on quantity rather than quality in the housing sector. This led to:

(i) Low-standard construction techniques and materials;

(ii) Little expenditure on maintenance and repair; and

(iii) High concentration of housing in new areas with little concern for the quality of their environment;

(b) The developments during the transition period have further aggravated these problems:

(i) The State no longer participates financially in the upgrading of the existing housing stock;

(ii) Municipalities, mainly due to financial constraints, have not been able to arrest the continuous decline in housing sector performance. Moreover, municipal rental policy is too restrictive;

(iii) The new form of private ownership in multi-flat buildings (condominiums) has not been able to address the maintenance and repair problem due to legal and functional problems, as well as the lack of finance; and

(iv) Private owners lack access to finance for major renovation projects.

A new act on renovation and rehabilitation of urban buildings with its renovation fund is presently being debated in Poland. The act addresses the problems of the existing housing stock. It is important to ensure that it contains adequate and practical implementation instruments, including financial ones, and that it is enforced. Renovation and rehabilitation activities, as well as many other practical aspects of housing policy implementation, will have to be managed at the local level, so local authorities must be able to meet new challenges.

#### Box 2

1. *The need for more housing construction must be met by the private sector and non-governmental organizations in cooperation with local authorities. In order for the private sector to fulfil this task, framework conditions must be established:*
  - (a) *Access to capital for construction purposes and for long-term financing based on mortgages must be ensured (see box 3);*
  - (b) *Local authorities must be transformed as quickly as possible into efficient providers and partners for the private sector. To achieve this, local authorities must:*
    - *Set up political and administrative structures and routines to meet the challenges (see box 4).*
    - *Develop local housing policies, strategies and action plans.*
    - *Develop and implement a strategic land policy for new housing development.*
    - *Be given assistance and guidance on the financing of infrastructure needed for new housing development. This includes new financial instruments and access to capital markets.*

(Continued on next page.)

2. *Local authorities should be engaged in new construction to provide satisfactory social housing for population groups in need of social assistance. Such projects should be realized by:*
  - (a) *Own construction projects:*
    - *For such projects the national housing fund should offer specially favourable financing conditions;*
  - (b) *Construction by TBS (non-profit housing associations):*
    - *Such projects should be integrated in ordinary TBS projects. The local authority contribution could be provided in kind by means of land and infrastructure;*
  - (c) *New units with local authority ownership and/or allocation rights integrated in private sector projects. Contribution of local authorities could be arranged as under (b).*
3. *Urgently needed repair and renovation of the existing housing stock must be given high priority both by the State and by local authorities. Practical steps should include:*
  - (a) *Urgent finalization of the act on renovation and its policy instruments;*
  - (b) *Securing coordinated use of available State funding (through the renovation fund and the national housing fund);*
  - (c) *Establishing clear, effective and non-bureaucratic procedures for applying for State funding;*
  - (d) *Local authorities should, as part of their housing policy and action plans draw up programmes for the existing housing stock and cooperate with the private sector to implement them. The question of rent levels should be considered from a cost recovery perspective (see box 4).*

#### **4. Housing economics and affordability**

As noted above, one of the main reasons for the slow pace of transition of the Polish housing sector is the lack of efficient financial instruments. Several key factors hinder the emergence of such instruments:

(a) The high cost of credit;

(b) The commitment of the State to previous subsidy policies, thus limiting State funding for new, market-oriented initiatives. Presently about 75-80 per cent of the State housing funding is spent on these "historical" problems; and

(c) The slow emergence of mortgage financing, with lending dominated by the PKO PB bank.

New residential development will remain low as long as financing is based on private savings. However, the following significant new policies and instruments are being developed:

(a) A draft law on mortgage banking is under consideration;

(b) A number of banks are slowly beginning to offer mortgage loans;

(c) Establishing the national housing fund would provide a channel of financing;

(d) The State's preferential lending to TBS (non-profit housing associations) is an important step in the right direction;

(e) The proposed national renovation fund with its element of grant financing will be an important instrument; and

(f) The existing Mortgage Fund already plays an important role.

Although all these factors represent positive developments, the main critical element to secure private-sector involvement in housing is the establishment of an effective, competitive mortgage banking system, which requires a clear legal framework. To that end, the following measures are recommended:

(a) The statutory tax lien which gives the authorities precedence in cases of default should be reconsidered;

(b) The present problematic nature of registration of titles and deeds under the Act on Perpetual Books and Mortgages must be solved; and

(c) Procedures obtaining formal information from local authorities on titles and deeds are presently time-consuming and costly, and should be streamlined.

At present, financing major repair and renovation with mortgages faces several legal obstacles:

(a) The new Condominium Law does not define the legal status of owners' associations. This bars the associations from formally acting as borrowers and offering securities;

(b) The Law on Cooperative Housing contains vague provisions with regard to the legal status of owners/tenants, which complicates mortgage lending.

The above legal issues should be addressed urgently in order to remove major obstacles to an effective mortgage lending system and increase the participation of the private sector.

State subsidy for housing takes two main forms in Poland:

- (a) Loans with subsidized interest rates; and
- (b) Fiscal incentives.

It can be argued that these traditional tools do not meet their objectives effectively. This choice of instruments must, however, be understood in the light of the present economic circumstances in the countries in transition. A gradual transfer of general State housing subsidies towards direct State funding in preferential projects, for example in the form of grants, should be tested. Grant funding would effectively target housing projects that have overall political priority, such as:

- (a) Low-cost housing for young families/first-time homebuyers;
- (b) Renovation and renewal projects that promote energy efficiency;
- (c) Social housing projects by local authorities; and
- (d) Rent-controlled projects by TBS (non-profit housing associations).

For external funding local authorities should be given preferential access to the national housing fund and

other State financial instruments. Local authorities should take more responsibility for financing repair and renovation of the existing housing stock. This requires policy changes in different areas:

- The State should relax its strict rent control, which stands at 3 per cent and 4 per cent (TBS projects) of new construction costs. These maximum rents do not cover the costs in the existing stock.
- Local authorities should make the most of existing and possible future relaxed rent controls by combining flexible rents with housing allowances.
- All income from the present local authority-owned building stock should be earmarked for the local repair and renovation fund.

The recommended relaxation and greater flexibility of the Polish rent regulating systems must be accompanied by a revision of the present Housing Allowance System.

There are some doubts about the targeting effectiveness of the present Housing Allowance System. The State determines the criteria and allowance levels, thereby deciding the level of total payment, but it does not guarantee State funding for such payment. Since an effective housing allowance system is particularly important to ensure that disadvantaged groups can afford to house themselves, the present system should be reconsidered. As in many west European countries, the system should be based on "standard cost" of an appropriate dwelling, not the actual rent charged.

### Box 3

1. *To make private sector demand for new housing possible, a competitive mortgage lending system should be urgently established. To this end:*
  - (a) *The law on mortgage banking should be passed as quickly as possible;*
  - (b) *It should ensure that the emerging mortgage banking system is genuinely competitive;*
  - (c) *The existing statutory tax lien should be reconsidered to ensure that property can be a real security for mortgage lending;*
  - (d) *Registration of titles and deeds under the Act on Perpetual Books and Mortgages must be made efficient as a prerequisite for mortgage lending;*
  - (e) *Provision of formal documentation on property by local authorities must be made efficient with regard to time and costs;*
  - (f) *Legal changes are required:*
    - *The Condominium Law must be amended to give clear legal status to the owners' associations;*
    - *The Law on Cooperative Housing must be clarified with regard to the legal status of owners and tenants.*
2. *State financing is central to accelerating new housing construction:*
  - (a) *The State's present practice of funding "historical" housing commitments should be terminated as quickly as possible;*
  - (b) *State funding should gradually move from the present system of interest-rate subsidies, to grant-based financing. This system should be based on projects targeted for State assistance.*

(Continued on next page.)

3. *Financing of new housing projects by local authorities requires new solutions:*
  - (a) *Projects in partnership with the private sector and non-governmental organizations (TBS) should be promoted (see box 2);*
  - (b) *To ensure necessary external financing, local authority projects should be given preferential treatment by the housing financing institutions established by the State.*
4. *Financing of major repair and renovation requires new instruments and policies:*
  - (a) *The proposed renovation fund should be established as soon as possible;*
  - (b) *Private sector engagement in renovation is dependent on the legal changes recommended under 1 (b) above. In addition, the voting rules on major renovation projects in condominiums should be re-examined;*
  - (c) *Local authorities should take greater practical responsibility for repair and renovation of their housing stock. Consequently:*
    - *The State must relax its present strict rent control of local authority housing (the 3 per cent rule), and of TBS housing (the 4 per cent rule);*
    - *Local authorities must use the maximum allowed rent levels, in combination with housing allowances, to effectively address the maintenance backlog;*
    - *Local authorities should earmark income from their building stock for a local maintenance fund.*
5. *Affordability of housing, particularly for lower income households, is dependent on efficiently targeted housing allowances:*
  - (a) *The present system of allowances should be re-examined in terms of targeting, transparency and accountability;*
  - (b) *The State should ensure that the allowance system is also sufficiently financed;*
  - (c) *Allowance criteria should be based on the "standard costs" of appropriate dwellings, not real costs.*

## 5. Legal framework

An adequate legal system is one of the absolute prerequisites for transition from a centrally planned to a market economy. Providing a legal framework for economic development is a top priority for countries in transition. The emergence of a market-oriented housing sector largely depends on legal changes in several areas that are either directly or indirectly related to housing. During the transition, particularly in 1993-1997, Poland paid particular attention and devoted resources, to legal issues. As a result, it made considerable progress in developing its general legal framework. However, the new legal system is not yet fully in place.

As part of the overall legal restructuring, the Government has laid the foundations for the legal framework for housing development. It is, however, important to finalize this work as quickly as possible and to address bottlenecks and clear up uncertainties in the acts already adopted (see also sections 1, 3 and 6).

## 6. Institutional framework

Transition from a centrally-planned to a market economy requires far-reaching and comprehensive changes

throughout the institutional framework, from central government structures through to the private sector. This is particularly important for the housing sector, which had a special political and social place under the previous socio-economic system. Transforming the institutional structures necessary for effective housing development in Poland is one of the major bottlenecks within the housing sector. This is particularly true for local authorities, non-governmental organizations, and the private sector.

At the parliamentary level, housing issues are the responsibility of the Commission on Spatial Planning and Housing Policy. The Commission, in consultation with the Commission on Economy, Budget and Financial Policy, is responsible for presenting housing and spatial planning legislation proposals to the Parliament. Given the considerable amount of legal acts adopted by the Parliament with regard to housing in 1993-1997, it could be concluded that the Parliament and its Commissions have proved able to make the necessary decisions to change the fundamental legislative framework of the housing sector.

At the governmental level, until the end of 1996, primary responsibility for housing issues lay with the former Ministry for Physical Planning and Construction, which cooperated with the Ministry of Labour and Social Welfare, the Ministry of Justice and the Central

Planning Office. At the beginning of 1997, the Ministry for Physical Planning and Construction was abolished. Its responsibilities for the housing sector and housing-related activities were transferred to the Housing and Urban Development Office under the Prime Minister. This institutional change is expected to strengthen the priority of housing issues at the governmental level.

The regional level is a component of the administrative structure where coordination and restructuring are particularly required. The establishment in 1995 of the Sub-Committee for Regional Policy and Rural Areas Development and the setting-up in the same year of an Extraordinary Parliamentary Committee to review governmental regional policies clearly indicate the political awareness of the regional coordination problem. The regional administrator—the governor of a *voivodship*—has little executive power. In addition, it seems that at present this level does not have enough coordinating power to deal with the many governmental institutions and bodies operating independently at the regional level. The lack of coordinating power is particularly important, since the *voivodship* is designed as the principal institution for interregional policy, which could in future have a significant impact on infrastructure and housing development projects across community boundaries. The regional administration controls and approves the local authorities' rental policy, and maintains the regional statistical database on housing construction costs as a basis for funding new rental housing through the national housing fund. The present strict governmental control of these issues through *voivodships* should be reconsidered.

The regional assemblies (*sejmiks*), established in accordance with the Act on Self-Government, are not constituted as elected representative bodies at regional level. At present, a number of special-purpose governmental units, some with considerable resources, operate at the regional level. Most of these units represent different State institutions. However, it should be noted that there is a lack of cooperation and coordination between the different institutions, and that there is no effective cooperation between *voivodships* and these institutions.

As developing an effective regional policy is important for future housing development, this coordination and cooperation at regional level should be improved by making appropriate changes to the structure and functioning of regional institutions representing governmental units and regional elected bodies.

It is at the local level that the housing policy has to be implemented and there that an effective, operational housing sector framework needs to be established. The structure and procedures of political and administrative bodies at the local level are therefore paramount. Today, this area could be considered as the weakest link in the housing sector's transformation. The Act on Self-Government places clear responsibility on local authorities for meeting the housing needs of the population. The legal changes which have taken place, particularly during 1994-1997, have strengthened this responsibility and have specified the obligations of local authorities concerning housing. It should be taken into account,

however, that introducing an independent local government in a country which for decades had had a centralized legal and administrative system takes time and faces formidable problems.

Local authorities' lack of general experience to act as independent operators in a market system (in particular the lack of political and administrative structures, procedures and skilled staff) slows down the transformation in the housing sector.

Although different municipalities are developing their own creative solutions to particular housing problems, there is a serious lack of general guidelines for strategic and organizational changes in the housing sector at the municipal level. Best practices, successes and failures of experimental solutions in individual municipalities are not systematically disseminated.

Local policies concerning the allocation of land for future housing development will significantly influence the housing situation in Poland. The rapid sale of land at low prices by local authorities to the private sector, which is common practice now, could, at best, lead to inflated land prices for housing and, at worst, restrict housing development in the future. It is important that local authorities in their long-term housing policies integrate the availability and cost of land for housing development at an early stage.

The private sector is becoming the decisive force for economic growth in Poland. It should, and undoubtedly will, increasingly take on this role of driving force in the housing sector. Due to its increasing strength and influence, the private sector might, however, dominate in local development activities of individual municipalities. In view of the absence of municipal policies and strategies on spatial development and land use, related decisions are often taken on an ad hoc basis, under strong private-sector pressure, or based on vested interests. The need for expertise within local authorities so that they can become a real and equal partner for the private sector must therefore be underlined.

The housing cooperative movement has undergone considerable change during the transition period. Today, housing cooperatives could be considered as the main private-sector operator in Poland's housing sector with considerable tasks both in the existing housing stock and in new construction. Non-governmental housing organizations representing special interest groups are increasing rapidly. They cover both property owners' and tenants' interests. Both types of organizations try to be an active part in the debate on the further development of housing in Poland.

The lack of experience and of a culture of cooperation and dialogue in Polish society over the last 50 years complicates effective partnership between central, regional and local authorities, on the one hand, and non-governmental organizations, the private sector and the general public, on the other. This problem should be addressed urgently to provide the necessary legal and organizational framework for such dialogue and cooperation so that the transition can move forward and

conflicts between the parties concerned can be avoided. The local level is the most important in this respect and needs the most urgent action.

The banking system, which is crucial to the further development of housing, is rapidly undergoing major structural changes. The key elements of these changes are: concentration and consolidation of major banks, absorption of small banks by large financial institutions, and privatization of State banks.

The development in the building and construction industry illustrates the rapid transition of the Polish economy to the market system. In 1995 more than 85 per cent of all construction was carried out by the private sector, employing 80 per cent of the sector's total workforce. In consultancy services on legal, economic, architectural design and construction issues, a vibrant private sector is now emerging, after the turbulent period of disintegration of large State-owned companies in the construction sector.

#### Box 4

1. *The regional level is the most appropriate for coordination of policies and activities related to housing, infrastructure development and land use. In such coordination the governor of the voivodship should be given greater overall responsibility.*
2. *The need for obligatory local authority consultation and cooperation on housing policy questions and physical development of regional importance should be addressed. Solutions require assistance from the national level, but should be based strictly on local authority participation, if necessary under the guidance of the governor of the voivodship.*
3. *Practical steps should be taken to enable local authorities to become effective central partners in the housing sector:*
  - (a) *All local authorities should work out a housing strategy/policy. As a first step, all towns with a population above 100,000 should be required to develop such policy documents within a specified time;*
  - (b) *Political and administrative structures in the urban local authorities should be reorganized in order to address effectively the problems and opportunities in the housing sector;*
  - (c) *Procedures and practices in decision-making and administration in the local housing sector should be adapted to the needs of a market-oriented, open, and communicative housing policy. In particular this applies to the management and administration of the municipal housing stock;*
  - (d) *The local authority housing units urgently need practical programmes for staff training, support systems (computers, operating manuals, quality control systems), etc.;*
  - (e) *A land policy/strategy should be developed by each urban local authority as part of, and as a basis for, its housing policy.*
4. *To carry out the recommendations, the Government should provide advice to local authorities and their organizations in the form of handbooks, manuals, training programmes, etc. with a view to disseminating possible standard organizational solutions, operational procedures, and recommended transition policies.*
5. *To improve the general public's understanding of, and participation in, the local housing sector, local authorities should have in place a public information campaign and a dialogue with the public as part of their housing strategy/policy.*

#### 7. Profile graph on Poland's housing sector

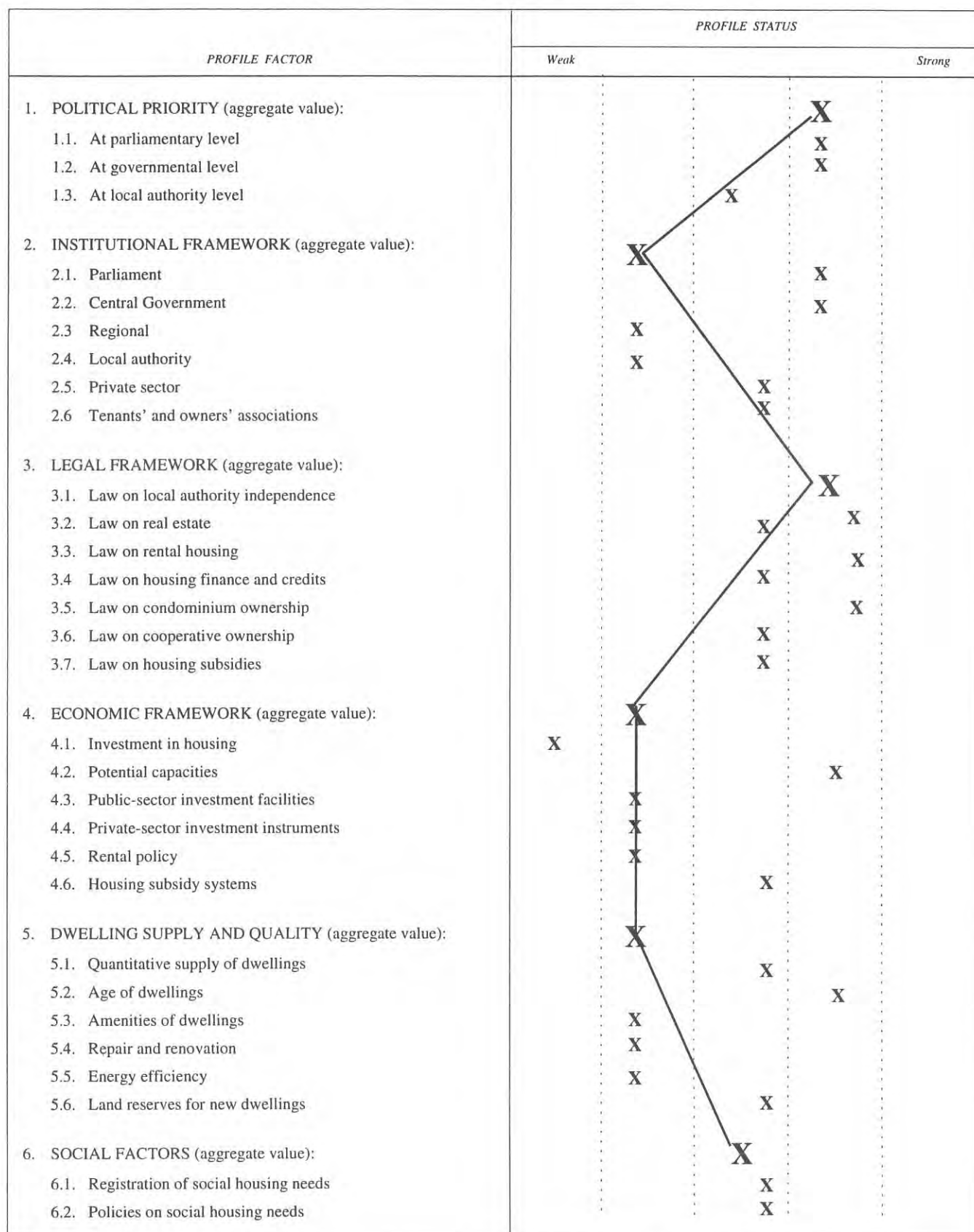
The following profile graph is a visual aggregated representation of the housing sector in Poland as of mid-1997. The graph should be considered as the expert team's subjective value judgement on the main elements of the Polish housing sector. Its main purpose is to highlight the areas in the housing sector where the main bottlenecks are and where remedial action should be concentrated.

As the profile illustrates, the main impediments to the further transition of the Polish housing sector concern the Institutional Framework, and the Economic Framework.

The main problems in the housing sector are the standard of the existing stock and the need to upgrade it, and the low rate of new construction.

It is necessary to solve these problems to move the transition of Poland's housing sector forward. Progress in this area is a prerequisite for socio-economic stability in the country.

**Poland**  
**The country profile graph, 1997**





# I. FRAMEWORK FOR THE HOUSING SECTOR TRANSITION

## A. Key figures and information about Poland

—Population (mid-1996):	38 618 019
—Capital:	Warsaw
—Percentage of population in capital:	4
—Area (km <sup>2</sup> ):	312 685
—Density (persons per km <sup>2</sup> ):	123
—GDP per capita (1995):	US\$ 5 478 Zlotys 7 412
—Life expectancy (1995):	—Male 67.6 years —Female 76.4 years
—Infant mortality per 1000 live births (1995):	13.6

Sources: *Trends in Europe and North America 1996/97—The Statistical Yearbook of the Economic Commission for Europe* (United Nations publication, Sales No. E.97.II.E.5). Data supplied by the Central Statistical Office of Poland.

## B. Demographic development

At the end of 1995, Poland counted 38,609,400 inhabitants, of whom about 62 per cent lived in urban areas. The total population of Poland increased by 426,200 between 1990 and 1995 (table 1). During the previous five-year periods (1980-1985 and 1985-1990) the increase was 1,625,000 and 915,000, respectively. In 1995 the population increased by about 28,000, which is the lowest real increase since the Second World War. By comparison, in 1986 the increase was 231,000 and in 1960 it was 423,000.

The population of Poland continues to grow thanks to the high birth rate. However the number of births and that of deaths are moving closer to each other. Poland is one of few countries in transition, together with Albania, the Republic of Moldova and Slovakia, which experienced a positive natural increase in their populations in 1995. Belarus, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Romania, the Russian Federation and Ukraine, all reported a fall.

The annual number of Polish migrants who move abroad permanently has no significant impact on the natural increase in population. In 1995, 26,300 Poles emigrated; in the 1980s the average figure was about 20,000 to 35,000 people a year. There is an evident growing trend in the number of people immigrating to Poland. In 1995, 8,100 immigrants arrived in Poland seeking permanent residence.

The destinations of Polish emigrants in 1995 were: Germany (73 per cent), the United States (11 per cent), Canada (6 per cent), Austria, Sweden and Australia. The largest number of immigrants to Poland came from: Germany (27 per cent), the United States (17 per cent), the former Soviet Union (16 per cent) and Asia. The migration from Poland to western countries and the general east-west migration have proved less intensive than anticipated and are expected to decrease rather than increase in the future.

From 1976 to 1980, the urban population increased by 2 million inhabitants. However, 1980 marked the beginning of the drop in rural to urban migration. Between 1981 and 1985, the urban population increased by only 1.5 million. The primary reason for this development was the economic crisis, which particularly affected the cities, where employment, housing provision and living standards dropped considerably in comparison with rural

TABLE I

Population trends

Year	Population on 1 January	Natural increase	Net migration	Increase	Population on 31 December
1986	37 340 500	258 400	-27 100	231 300	37 571 800
1988	37 764 300	216 900	-96 600	120 300	37 884 700
1990	38 038 400	157 400	-12 600	144 800	38 183 200
1992	38 309 400	120 500	-11 600	108 600	38 418 100
1994	38 504 700	94 900	-19 000	75 900	38 580 600
1995	38 580 600	47 000	-18 200	28 800	38 609 400

Source: Council of Europe. *Recent Demographic Developments in Europe* (1996).

areas. In 1993, net permanent migration between rural and urban areas stood at only 59,900 inhabitants in favour of urban areas. At the same time there are indications that some 40 per cent of the population in rural areas make their living by economic activities other than farming. Thus, the influx into cities can be expected to increase, in particular with the general economic recovery there.

### C. General economic framework

#### *Economic policy programmes and objectives*

Poland was one of the first countries of central Europe to take sweeping measures to promote transition to a market economy, when in early 1990 it started carrying out its economic stabilization programme ("shock therapy" programme). The programme emphasized four aspects: (a) macroeconomic stabilization; (b) deregulation of prices and economic activity; (c) integration with the world economy by liberalizing foreign trade; and (d) privatization. However, it resulted in a contraction of economic activity in 1990-1992. During 1990, gross domestic product (GDP) declined by 11.6 per cent, real wages by 20 per cent and employment by 6 per cent.

The Government elected in September 1993 continued the free market economic reform. Poland's gross domestic product grew by 3.8 per cent in 1993. In June 1994, the Government approved a medium-term economic programme "Strategy for Poland". The programme outlined the basic macroeconomic objectives and the measures needed to meet them, and set out directives for further economic and social reform. It proposed policies to boost growth rates, and foreign and domestic investments, and to cut inflation and unemployment in an environment of fiscal discipline and economic restructuring. One of the main problems addressed by the programme was unemployment, the most serious "side effect" of Poland's transition.

In the early 1990s, macroeconomic policy focused on achieving economic stability. These priorities precluded any departure from the strict rules applied across economic sectors and regions. In the mid-1990s, the situation changed and promoting steady economic growth and higher competitiveness became the primary goal of macroeconomic policy.

From the beginning of reform, the Government has been pursuing an adjustment process in view of Poland's accession to the European Union (EU). Since 1993 the Government's action programme for the adaptation of the Polish economy and legal system to the requirements of the European Union has been implemented. The programme defines the main directions of the integration process and the tasks of individual ministries and central offices. In March 1996, the Parliament of Poland adopted the National Strategy for Integration, which outlines the tasks stemming from the adjustment process, defines priorities and key elements of the process, and identifies development challenges. The

strategy is addressed to governmental organizations and bodies, to the President and Parliament, to political parties and social organizations, to business and employers' organizations, to trade unions and citizens.

The following bodies are charged with its implementation:

- The Council of Ministers;
- The Committee for European Integration;
- The Foreign Ministry and Polish diplomatic missions;
- Other ministries and central offices;
- Regional and local authorities.

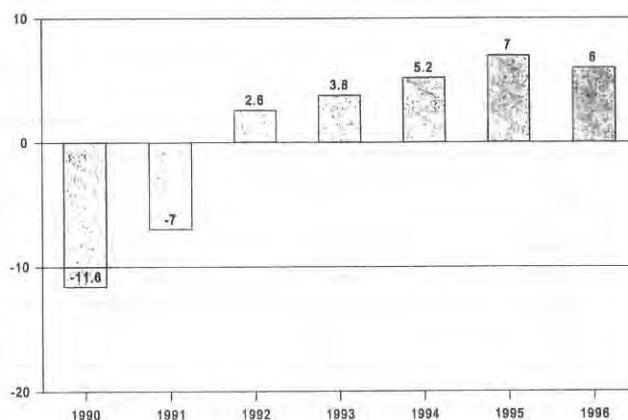
The work is being coordinated at the following three levels:

- Strategic: The Committee for European Integration;
- Operational: Secretaries or Deputy Secretaries of State responsible for European integration;
- Working: Heads of European integration departments in individual ministries and offices.

#### *Highlights of recent macroeconomic developments*

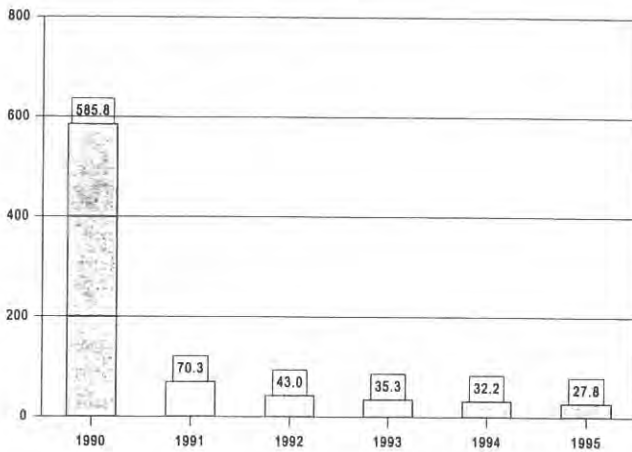
The most important indicator reflecting the upswing in the national economy is the change in GDP. Poland became the first central European country to register an overall increase in economic activity, with GDP up 2.6 per cent in 1992, 3.8 per cent in 1993, 5.2 per cent in 1994, 7.0 per cent in 1995 and 6.0 per cent in 1996 (fig. I). Industry was the main contributor to GDP. The consolidation of GDP was accompanied by a substantial fall in inflation. In 1996 inflation was still high, but it ended the year at 19.9 per cent, compared to 35.3 per cent in 1993 and 27.8 per cent in 1995. The Government was aiming for an inflation rate of 13 per cent by the end of 1997. Domestic demand was the main driving force for the economic growth, based on substantial growth in real investment, consumption and considerable inflation deceleration (fig. II).

FIGURE I  
Real GDP change  
(% change over previous year)



Source: Data supplied by the Central Planning Office of Poland. 1996: Forecast.

FIGURE II  
Consumer price index  
(% change over previous year)



Sources: Data supplied by the Central Planning Office of Poland. Economic Commission for Europe, *Economic Survey of Europe in 1996-1997* (United Nations publication, Sales No. E.97.II.E.1).

During the initial phase of the transition process, the demand for labour weakened as output declined. In Poland, like in many other countries in transition, employment stopped falling in 1994, when output started to pick up considerably (table 2). However, the number of new jobs created was comparatively modest, reflecting the considerable degree of excess employment in Poland before the transition. This situation enabled enterprises to increase output significantly without increasing their labour force. Despite the fall in number, the rate of unem-

ployment remains very high: 14.9 per cent in 1995 and 13.6 per cent in 1996. In 1994, some 35 per cent of the unemployed were 24 years old or younger. The labour force has contracted due to demographic trends and early retirement schemes. Employment has declined in particular in housing management, the public sector of agriculture and health care. Poland's unemployment has three main features: (a) many jobless are young people; (b) there is much long-term unemployment; and (c) there is a large and growing regional differentiation in unemployment due to discrepancies in economic development and demographic situation among regions. A deep quantitative deficit of dwellings is hindering the migration of workers between regions. High unemployment among young people means that they do not earn sufficiently to save money for housing. Unemployment has drastically reduced demand for housing and will continue to do so.

New (fixed) investments are a crucial factor in the recovery of the national economies of countries in transition. Table 3 gives an overview of the changes in the total investment volume in some countries in transition. In 1995, foreign private investment in Poland amounted to some 2.5 billion US dollars (counting only the firms which invested over 1 million US dollars). This was over 92 per cent more than in 1994. Foreign companies are already focusing hard on potential investment opportunities and joint ventures in Poland's construction sector, which is very active at home and, to some extent, overseas. Although comparatively small by western European standards, the domestic market is estimated to be worth about US\$ 9 billion a year. With its population of 38 million and low construction investment, Poland has the potential to become one of Europe's fastest growing construction markets. Activity in the Polish

TABLE 2  
Main economic data

	1990	1991	1992	1993	1994	1995
GDP at current prices (US\$ billion at current PPP)	160.3	152.1	169.0	179.9	194.7	211.4
Gross industrial output (% over previous year)	-24.2	-11.9	3.9	6.4	11.9	9.4
Exports (f.o.b., US\$ billion)	14.3	14.9	13.2	14.2	17.3	22.9
Imports (c.i.f., US\$ billion)	9.5	15.5	15.9	18.8	21.6	29.0
Employment (% change over previous year)	-4.2	-5.9	-4.2	-2.4	1.0	2.0
Registered unemployment rate (%)	6.5	12.2	14.3	16.4	16.0	14.9
Exchange rate (Zlotys per US\$, at year-end)	0.95	1.1	1.58	2.13	2.44	2.47
Total expenditure on education (% GDP) <sup>a</sup>	..	5.2	5.4	5.4	5.3	5.2 <sup>b</sup>
Total expenditure on health (% GDP) <sup>a</sup>	..	5.0	5.1	4.7	4.7	4.7 <sup>b</sup>
Primary energy consumption (petajoules)	4 097	4 033	3 993	4 250	4 073	..

Source: *Trends in Europe and North America 1996/97—The Statistical Yearbook of the Economic Commission for Europe* (United Nations publication, Sales No. E.97.II.E.5).

<sup>a</sup> Public expenditure only.

<sup>b</sup> Preliminary data.

TABLE 3  
Annual change in total investment in selected  
countries in transition

	1992	1993	1994	1995
Bulgaria	-11.0%	-20.2%	-10.1%	64.7%
Czech Republic	-17.6%	-2.2%	22.1%	38.4%
Hungary	-21.7%	32.3%	19.8%	6.3%
Poland	-13.0%	14.9%	9.0%	27.6%

Source: Economic Commission for Europe, *Economic Survey of Europe in 1996-1997* (United Nations publication, Sales No. E. 97.II.E.1).

construction market is directly linked to key investment programmes in the area of energy, infrastructure and construction. Already more than half a dozen major industrial and manufacturing plant projects have been announced involving more than US\$ 1 billion of new investments.

#### *Change in the ownership structure*

Before 1989, the Polish Constitution divided real property ownership into three types: (a) social ownership; (b) personal property; and (c) individual or private property. By the amendment of 28 July 1990 to the Civil Code of 1964, the differences in the legal protection of State and private ownership were abolished in civil and commercial law. Together with the re-establishment of local governments (Act on Local Governments of 1990), new regulations assigned revenue rights and land use to the local authorities. Regulations on privatization are specified in the following three major legislative acts: (a) the Privatization of State Enterprises Act of July 1990; (b) the Management of Agricultural Property of the State Treasury and Amendments to Certain Laws Act of 1990; and (c) the National Investment Funds and the Privatization Act of 30 April 1993.

One of the most important developments in the Polish economy is the dynamic growth in the number of private companies with domestic and foreign private capital, and in small businesses. Between 1989 and 1995, the number of private companies' domestic capital participation increased from 10,420 to 87,570, while the number of companies with foreign capital participation rose from 396 to 22,940 during the same period.<sup>2</sup> This growth in the number of private companies pushed up the number of people engaged in this sector from 5,848,600 (10.1 per cent of total employment, without the agricultural sector) in 1989 to 9,045,600 (35 per cent of total employment, without the agricultural sector) in 1994. In 1996, 52 per cent of GDP was produced by the private sector, which accounted for 63 per cent of total employment.

Within the privatization programme for agricultural property, 1,651 State-owned farms had been liquidated by June 1995 and their assets were transferred to the State Treasury Agricultural Property Agency. This

Agency also acquired 327,000 apartments, of which 148,000 were sold. The liquidated State farms formerly employed 192,600 persons, of whom 59,600 were re-employed by the newly established farms. The changes in the ownership structure of the agricultural sector resulted also in a considerable increase in fallow land, from around 0.7 per cent of the total arable land in 1989 to 10.6 per cent in 1994. This development caused deep social and economic recession in northern Poland, which was traditionally an agricultural region based on collective farming.

#### **D. Real estate and land administration**

Poland, like the other countries in transition, is moving from a poorly differentiated set of State property rights to a highly differentiated set of rights associated with ownership in a market economy: the right to derive income from productive assets; the right to negotiate the sales price of output in private transactions; the right to make decisions about their use; and the right to dispose of property through sale, transfer, or inheritance.

The Polish Civil Code contains general definitions of real estate. Real estate consists of land and buildings permanently attached to the land or parts thereof. Real estate in Poland may either be owned, leased by means of "perpetual usufruct" (in this case the buildings are the property of the leaseholder) or rented by contract. Certain acquisitions or real-estate transactions involving foreigners require government approval.

While there is a registry system for recording transfers of land and mortgages, it is still manual, and it often takes many months for information on transactions to be updated. Lands that were once in private ownership may be claimed by the former owner. Because of high interest rates, few Polish citizens can afford mortgage financing of real property. It is expected that, as inflation comes down, mortgage funds will become available to the majority of the population, which will boost demand for housing.

The rules that regulate the activities by municipalities on the real-estate market are specified in the Land Management and Expropriation of Property Act of 29 April 1985. This Act defines the principles of management of built-up land in the development plan (land-use plan) for building purposes as well as of expropriation of real estate. The principles defined in the Act do not relate to built-up land which is part of farmsteads or State forestry units and which is located in areas destined for farming and forestry use in physical planning programmes. Land belonging to the municipality or the State can be purchased by individuals or entities only through auction or tender. A municipality has the right not to announce a tender if a potential buyer wishes to establish an activity in the fields of charity, care, culture, health, education and training, sports or tourism. In such cases the land may be sold at a reduced price or offered on a freehold or leasehold basis, with the specification that the purpose for which the property is purchased is not of a commercial nature. Although the State or municipality is still the owner of the land, the perpetual

<sup>2</sup> Office of the Council of Ministers, *Regional Development in Poland 1990-1995* (Warsaw, 1996).

usufructuary guarantees are similar to ownership rights (such as the right to transfer or inherit). The right of perpetual usufruct is normally valid for 99 years. The annual fee for the perpetual usufruct varies between 1 per cent and 3 per cent of the land value estimated by experts appointed by the *voivod* (the head of a province), and depends on type of land use. The above Act of 1985 will soon be replaced by a new one. The final legislative procedure is under way in the Polish Parliament.

Leasing of land or other real estate by companies or individuals is generally not subject to any restrictions. In some cases, however, leasing from a State enterprise may require a permit. Land, buildings, parts of buildings and flats that are separately owned or mortgaged are liable to real-property tax. Municipal authorities determine the applicable rate, subject to certain limits.

According to the present legislation, a foreign investor wishing to take possession of real estate through ownership or perpetual usufruct rights requires a permit from the Ministry of Internal Affairs and Administration. In the case of a company established in Poland with foreign participation, a permit is required if 50 per cent of its shares or more belong to a foreign shareholder. To obtain this permit, the foreign investor must apply to the Social-Administrative Department of the Ministry. A reply is normally given within two months.

The amendments introduced in the civil laws by the Act of 29 December 1989 on amending the Constitution had an enormous impact on the Polish real-estate market and the nature of ownership. The constitutional principle of the State guaranteeing and protecting citizens' property, introduced the State's duty to manage land and building registers in the form of a real-estate cadastre.

The existing land and building registry system in Poland is similar to that in the majority of European countries. It contains official records and descriptions of national land resources for use in economic planning; regional development; taxation; real-estate business; national statistics and land management. Historically registration of real estate and property rights was carried out in two forms: a land cadastre (land and building register) and a land registry (land and mortgage register). The land cadastre has traditionally been maintained by the State's administrative bodies and served initially as the basis for calculating taxes. Cadastre data specify not only the boundaries of the real estate but also the type of land, and its owner or holder. The land registry, maintained by the courts, has also been a traditional register of official records of property rights and other rights related to the real estate, as well as any easements on them. The main function of the land registry is to create a reliable legal basis guaranteeing the certainty of real-estate transactions and a reliable basis for contracting long-term mortgage credit.

However, the existing system of land administration is not efficient because of: (a) its failure to respond to emerging needs as a result of socio-economic transition; (b) the lack of financial resources to modernize it. The ongoing modernization of cadastre and land registration intends to include: data about buildings; data on land

and mortgage registers; data on infrastructure; and data on real-property values. The present legislation on land registration (legal aspect) and land and building register (cadastre—geometrical description of property) consists of:

(a) Land title registration:

- Act of 6 July 1982 on land and mortgage registers;
- Order of the Minister of Justice of 18 March 1992 regarding the application of regulations concerning the Act on land and mortgage registers;

(b) Cadastre (land and building register):

- Ordinance of the Council of Ministers of 9 June 1956 regarding land classification;
- Act of 17 May 1989—Geodetic and Cartographic Land;
- Ordinance of the Ministers for Physical Planning and Construction and Agriculture and Food of 17 December 1996 regarding the land and building registry;
- Act of 19 October 1991 on the administration of the State Treasury's agricultural property;
- Ordinance of 1 March 1995 on detailed principles of real-estate valuation;
- Ordinance of the Ministers for Physical Planning and Construction and Agriculture and Food of 5 August 1996 on the demarcation of real estate.

Following the recent restructuring of Poland's central administration, the Head Office of Geodesy and Cartography was set up on 1 January 1997 with responsibilities in geodesy, cartography and cadastre. The Office is headed by the Surveyor-General of Poland, who is responsible for policy, legal, financial and management matters with regard to the national geodetic and cartographical service.

## E. Environmental aspects

Poland suffers from a high level of environmental degradation. This is the result of past industrialization and urbanization processes which for many years treated natural resources as free goods and disregarded the cost of land. This led to the emergence of ecological problem areas, which cover 11 per cent of the country's territory and are inhabited by 35 per cent of the population. Particularly high is the level of air pollution, especially of airborne particles and sulphur dioxide. The economy is characterized by a high level of energy use per unit of gross national product. Moreover, power generation relies mainly on coal. As a result Poland is responsible for a share of the global emissions of sulphur and carbon dioxide. Counteracting environmental degradation still focuses on limiting emissions from stationary, mainly industrial, sources. However, the expansion of district heating and hot water supply systems, the extension of sewerage systems, the development of sewage treatment plants, and the modernization of the housing stock could

decrease the volume of pollution related in particular to the household sector. Poland's housing sector is confronted with, and is responsible for, many environmental problems. Dwellings heated with individual and district coal-fuelled units, and urban transport are a major source of *atmospheric pollution* in many cities and villages. The dwelling stock needs to be modernized to reduce energy consumption. Local air quality remains poor in many urban centres. Although emissions from power plants and industry have decreased during the transition period, those from district heating plants and residential coal combustion have not fallen off.

Water consumption in cities stood at 7.6 km<sup>3</sup> in 1993. The *quality of water* from communal water supply systems is estimated to be satisfactory in 90 per cent of them. However, in rural areas, only 24 per cent of inhabitants have access to such systems. The rest consumes water from wells, whose quality is satisfactory only in 50 per cent of cases. In 1993, about 90 per cent of municipalities had sewage systems. However, only 69 per cent of these municipalities also had sewage treatment facilities. *Waste management* is the respon-

sibility of local authorities, but their limited financial resources hinder the environmentally sound disposal of solid wastes. On average, 43-46 million m<sup>3</sup> of solid waste and 16-22 million m<sup>3</sup> of liquid waste are produced annually.<sup>3</sup> Only 55 per cent of the population enjoys waste collection services. There is opposition to the installation of waste disposal facilities, because of concern that local land prices will dwindle.

During the transition, there has been a significant reduction in the levels of most pollutants. This could be attributed to the contraction of economic activity, but also to the structural changes in the economy, the effectiveness of environmental measures, and the successful mobilization of financial resources for environmental investment. The positive developments are also a result of the implementation of the National Environmental Policy, which was approved in 1991 and which declares sustainable development to be the foundation for national environmental policy.

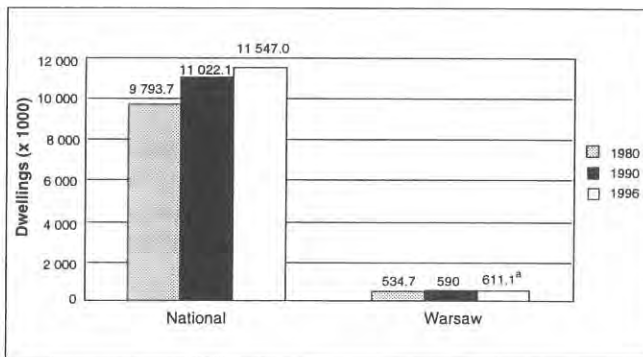
<sup>3</sup> Organisation for Economic Co-operation and Development, *Environmental performance reviews: Poland* (Paris, 1995).

## II. EXISTING HOUSING STOCK AND HOUSING DEVELOPMENT

### A. The existing housing stock

Poland's total housing stock amounted to about 11.5 million dwellings in 1996. Between 1980 and 1990, the average annual increase was about 1.25 per cent. In the transition period, this rate fell to about 0.8 per cent. In the capital Warsaw, the annual increase in the housing stock was slightly lower (about 1.0 per cent between 1980 and 1990 and 0.8 per cent between 1990 and 1994).

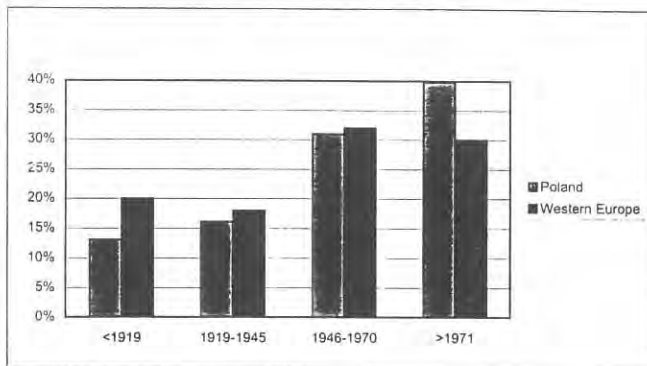
FIGURE III  
Number of dwellings



Source: *Trends in Europe and North America 1996/97—The Statistical Yearbook of the Economic Commission for Europe* (United Nations publication, Sales No. E.97.II.E.3).

<sup>a</sup> For 1994.

FIGURE IV  
Age of the housing stock, 1994



Source: Data supplied by the Housing Research Institute.

The composition of the dwelling stock by number of rooms (1996) is as follows: 18.8 per cent has fewer than three rooms, 71.8 per cent with three to five rooms and 9.4 per cent has six rooms or more.

Poland's dwelling stock is relatively new, in comparison to the west European average. The oldest part of the stock, built before 1919, constitutes only 13 per cent of the total, whereas nearly 40 per cent was built after 1970. Both the share of the dwelling stock built in the inter-war period and in the 1946-1970 period correspond to west European figures. Experience and surveys in other east European countries show that the construction quality of buildings built after 1970 is poor in comparison with those built in earlier years. Another well-known fact is that in the last decades the stock maintenance has been seriously neglected. This implies that the physical condition of the stock in general is rather poor. According to World Bank estimates, 45 per cent of the housing stock needs renovation. About 9 per cent needs to be replaced, 10 per cent needs to be renovated immediately. In addition, about 1.8 million dwellings need renovation for energy-saving purposes. It can therefore be concluded that the housing sector in Poland has a severe qualitative problem.

The dwelling stock has quite a high standard of amenities, like central heating, bathrooms, etc. (see table 4). However, there is a big difference between urban areas and rural areas. In general the level of amenities in rural areas is far lower than in urban areas. However, due to a lack of maintenance, among other things, the low technical quality of infrastructure networks (district heating, water supply) causes large losses of energy and water.

### B. New housing construction

In the 1970s, 200,000 to 250,000 housing units were built annually. After the record number of 278,000 new dwellings in 1978, there was a gradual decline in new construction with its collapse in the 1990s. The 1996 figure of newly constructed dwellings amounted to only 27 per cent of the 1980 figure.

In 1980, 75 per cent of the new stock was built by local authorities, State enterprises and the cooperative sector; private individuals constructed the remaining quarter. In 1990, the share of private construction rose to about 35 per cent and in 1996 to about 50 per cent. The cooperative sector built 51 per cent of new construction in 1990 and 39.6 per cent in 1994. The remaining

TABLE 4  
Dwelling amenities

Country	Total dwellings (1 000)	Percentage of dwellings equipped with:				
		Piped water	Bath/ shower room	Flush toilet	Central heating	Kitchen/ kitchenette
<i>European Union:</i>						
Austria 1994 <sup>a</sup>	3 072	99.4	94.0	93.4	66.1	..
Belgium 1991	3 748	99.6	87.7	91.9	60.1	94.6
Denmark 1993	2 403	100.0	90.3	96.9	95.2	97.8
Finland 1994	2 352	96.4	89.9	94.3	90.7	98.6
France 1992	26 978	99.9	100.0	95.8	81.6	93.7
Germany 1993	32 886	..	96.5	96.5	77.8	100.0
Ireland 1995	1 107	97.0	94.2	96.5	58.7	..
Luxembourg 1991	139	100.0	100.0	100.0	99.1	100.0
Portugal 1991	3 059	90.6	86.9	91.8	..	99.5
Spain 1991 <sup>a</sup>	11 736	99.3	95.5	97.2	9.1	99.4
Sweden 1993	4 044	100.0	100.0	100.0	100.0	100.0
United Kingdom 1991	23 557	100.0	99.6	94.7	80.6	99.9
<i>Central and eastern Europe:</i>						
Bulgaria 1993	3 406	83.4	44.9	57.7	16.9	..
Croatia 1991	1 585	86.2	75.7	80.4	24.7	98.2
Czech Republic 1990	3 706	96.9	90.0	88.5	59.0	..
Estonia 1993	614	63.3	51.7	59.5	54.0	..
Hungary 1994	3 971	84.1	79.2	..	..	98.9
Latvia 1995	952	78.2	64.1	74.3	63.3	98.5
Lithuania 1994 <sup>b</sup>	1 226	59.5	54.2	..	58.3	..
Poland 1995	11 491	89.6	77.9	77.8	68.4	98.1
Romania 1992	7 744	51.4	46.1	44.9	38.9	89.2
Slovakia 1991	1 618	92.7	89.0	80.0	74.7	..
Slovenia 1994	678	97.5	87.1	90.1	64.0	98.5
The FYR of Macedonia 1991	511	81.8	65.8	61.4	12.1	97.9
Yugoslavia 1993	3 093	..	..	61.2 <sup>c</sup>	..	88.7 <sup>c, d</sup>
<i>Commonwealth of Independent States:</i>						
Belarus 1995 <sup>b</sup>	2 498	78.4	73.1	77.0	78.3	..
Kazakhstan 1995	4 710	53.4	41.7	..	49.1	96.2
Republic of Moldova 1995 <sup>e</sup>	1 222	74.8	69.6	..	71.5	..
Ukraine 1990	922	94.3	88.6	..	89.9	..
<i>North America:</i>						
Canada 1990	10 013	96.0	94.0	..	94.6	..
United States 1993	106 611	99.3	99.1 <sup>f</sup>	98.1 <sup>f</sup>	83.0	96.6
<i>Other member countries of ECE:</i>						
Cyprus 1994	248	97.9	90.2	90.8	18.2	..
Iceland 1993	97	100.0	100.0	..	100.0	..
Norway 1990	1 751	..	95.8	96.1	..	99.0
Switzerland 1994	3 340	..	..	..	..	100.0
Turkey 1994	13 341	84.0	84.8	..	8.1	92.1

Source: *Trends in Europe and North America 1996/97—The Statistical Yearbook of the Economic Commission for Europe* (United Nations publication, Sales No. E.97.II.E.5).

<sup>a</sup> Data refer to main residences only.

<sup>b</sup> Excluding private property in rural areas.

<sup>c</sup> Data from March 1991 census.

<sup>d</sup> Excluding some dwellings in Kosovo and Metohia not registered in the March 1991 census.

<sup>e</sup> Data refer to dwellings in towns only.

<sup>f</sup> Excluding living units in which equipment is present but shared among 2 or more households.

share was built by public actors (i.e. local authorities and State enterprises). It should be taken into account that the character and scope of the cooperative sector's activity have changed remarkably. Cooperatives are now part of the private sector, rather than quasi-government agencies. Consequently, in 1996 some 90 per cent of housing production was carried out by the private sector.

The average dwelling size of new construction rose considerably between 1980 and 1996 (see table 6). The transition years especially witnessed a rapid increase. Privately constructed dwellings have always been significantly larger than those built by public actors. It should be noted that the private sector especially accounts for the recorded increase. New dwellings built



TABLE 5  
Construction of dwellings

	Poland		Western Europe
	Annual increase	Per 1 000 inhabitants	Per 1 000 inhabitants
1980	217 090	6.07	4.3-8.1
1990	134 215	3.52	3.5-6.6
1994	76 080	1.97	-
1996	59 000	1.50	-

Sources: Central Statistical Office, *Housing in 1996* (Warsaw, 1997). Central Statistical Office, *Statistical Yearbook 1981* (Warsaw, 1982). European Commission, *Statistics on Housing in the European Community* (Brussels, 1993).

TABLE 6  
Average floor space of newly constructed dwellings  
(In square metres)

	Poland			Western Europe
	Public sector <sup>a</sup>	Private sector	Average	Average
1980	53.0	96.1	64.0	
1990	59.4	109.9	77.2	69-135
1994	61.6	116.9	88.5	
1996	-	-	92.1	

Sources: Data supplied by the Central Statistical Office. Central Statistical Office, *Statistical Yearbook 1981* (Warsaw, 1982). European Commission, *Statistics on Housing in the European Community* (Brussels, 1993).

<sup>a</sup> Including the cooperative sector.

by public actors (including the cooperative sector) averaged 59.4 m<sup>2</sup> of useful floor space in 1990 and 61.6 m<sup>2</sup> in 1994, whereas the average size of privately built dwellings increased from 109.9 m<sup>2</sup> in 1990 to 116.9 m<sup>2</sup> in 1994.

During the first years of the transition, the effectiveness of investment projects in the housebuilding industry decreased significantly. This is illustrated by the longer average construction time, especially for multiple-family houses (see table 7). The average construction time for multi-family housing was 26 months in 1994, i.e. about 7 months longer than in the 1980s and 12 months longer than in the 1970s.

TABLE 7  
Average construction time for multi-family housing  
(In months)

	1989	1990	1991	1992	1993	1994	1995	1996
Total	19.1	20.6	23.5	23.3	25.4	26.4	22.2	20.7
—Municipal	-	25.1	32.9	30.6	30.8	21.4	20.4	-
—Cooperative	-	19.4	22.9	23.3	24	25.1	21.3	-

Source: W. Dominiak, *Macro-Economic Conditions of Housing Sector Development in Poland* (1997).

Undoubtedly, one of the reasons for the longer average completion period is the lack of funds faced by investors and their reluctance to take out expensive bank loans. During the transition, some improvements in housebuilding technology have been introduced. The

new construction of large-panel prefabricated housing units dropped from 65.7 per cent in 1989 to 15.3 per cent in 1996, while construction of dwellings based on traditional technology increased from 8 per cent to 56.8 per cent over the same period. These changes in building technology happened for different reasons, especially:

- A general concern for efficiency in the national economy;
- Structural and ownership changes in the building industry with the liquidation of large building companies;
- An increased demand for individual houses with investors having a bigger say in the choice of building technology.

### C. Housing supply

A quantitative comparison of the number of dwellings per 1,000 inhabitants shows that housing provision in Poland is considerably lower than in western Europe and even lower than the average in other east European countries.

Both the national and the Warsaw statistics indicate an increasing number of dwellings per 1,000 inhabitants

TABLE 8  
Dwellings per 1 000 inhabitants

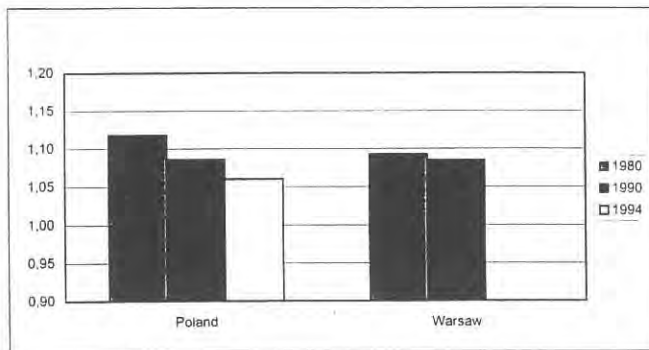
	Poland			Western Europe
	1980	1990	1996	
Poland	274	289	299	350-475
Warsaw	335	356	372	

Sources: Central Statistical Office, *Statistical Yearbook* (1981, 1991, 1997, Warsaw). European Commission, *Statistics on Housing in the European Community* (Brussels, 1993).

(see table 8). Although dwelling construction quickly declined in the transition period, the relative increase in the housing stock exceeded population growth, thus leading to a higher number of dwellings per 1,000 inhabitants. The relative number of dwellings in Warsaw is significantly higher than in Poland as a whole and corresponds to the average in other east European countries; its development over time is also comparable. The apparently rapid increase in Warsaw should, however, be understood in the light of a slight population decrease in the capital.

The 1980-1994 period witnessed a slight dip in the number of households per occupied dwelling, proof of better living conditions (see figure V). Taking into account the decline in construction during the transition and decreasing household sizes in the 1980-1994 period, one would expect an increase in the number of households per occupied dwelling. However, population

FIGURE V  
Households per occupied dwelling



Sources: Data supplied by the Housing Research Institute. J. Hegedüs, S. K. Mayo and I. Tosics, *Transition of the Housing Sector in the East-Central European Countries* (Budapest, 1996).

growth slowed from more than 10 per cent in 1976 to 2.6 per cent in 1993. The effect is a slight decrease of the number of households per dwelling during the transition period.

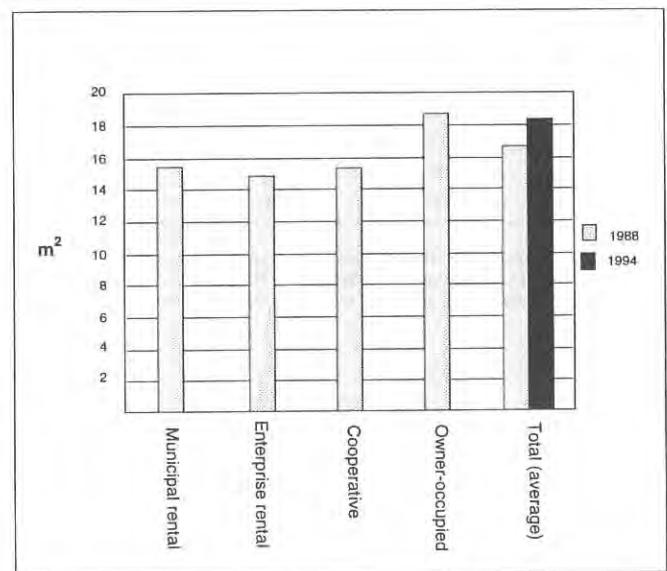
A comparison of the housing quantity and crowdedness between Poland and some other countries in transition leads to the following observations (table 9). Two indicators confirm Poland's housing deficit: the number of dwellings compared to population is very low in Albania (219) and Poland (296); the number of households per dwelling is high in Latvia (1.13), Poland (1.06) and Lithuania (1.06). However, the number of persons per room is comparatively good in Poland (1.02), while in Albania it is 2.70, in Slovenia 1.33, in Lithuania 1.30, and in Latvia 1.21. This stems from the fact that the average number of rooms per dwelling in Poland is higher than in these countries. In terms of floor space per person Poland with 18.2 m<sup>2</sup>/person is just below the average (21), the highest level is in Hungary (32.1) and the lowest in Albania (8.0). In general, the ratio of

TABLE 9  
Housing quantity and crowdedness in selected countries  
in transition around 1994

Country	Dwellings per 1 000 population	Households per dwelling	m <sup>2</sup> /person	Persons per room
Albania	219	1.00	8.0	2.70
Bulgaria	405	0.88	16.7	1.00
Croatia	336	0.98	..	1.10
Czech Republic	397	1.01	25.5	1.04
Estonia	410	1.03	32.0	1.18
Hungary	385	0.99	32.1	0.92
Latvia	370	1.13	20.9	1.21
Lithuania	329	1.06	19.7	1.30
Poland	296	1.06	18.2	1.02
Romania	341	0.95	17.4	1.19
Slovakia	334	1.00	21.9	1.14
Slovenia	338	0.95	19.0	1.33

Sources: J. Hegedüs, S. K. Mayo and I. Tosics, *Transition of the Housing Sector in the East-Central European Countries* (Budapest, 1996). *Trends in Europe and North America 1996/97—The Statistical Yearbook of the Economic Commission for Europe* (United Nations publication, Sales No. E.97.II.E.5).

FIGURE VI  
Residential floor space per person



Source: Data supplied by the Housing Research Institute.

households to dwellings is quite good in all these countries, but the size of the dwellings in terms of number of rooms and floor area is not adequate, resulting in high density in most of these countries.

In comparison to western Europe, where average floor spaces per person range from 26 to 43 m<sup>2</sup>, the Polish figure is low. Between 1988 and 1994, however, it rose slightly. This should be seen in connection with the rapidly growing size of newly constructed dwellings by private actors.

Between 1988 and 1994, the proportion of vacant dwellings fell off slightly, from 1.4 per cent to 1.3 per cent. Increasing tension on the housing market, caused by a number of factors dealt with in this report, has therefore probably led to a somewhat more efficient use of the existing housing stock. In general, the average vacancy rate is too low for the housing market to function properly. A 2 per cent vacancy rate would be more desirable.

#### D. Forms of tenure and privatization

Data on the tenure structure of the Polish dwelling stock indicate that the tenure forms are not too different from what is usual in western Europe. About a quarter is public rental, whereas some 40 per cent is owner-occupied (see table 10). For both sectors, this corresponds to the lower figures in the west European range. In Poland, a significant part of the dwelling stock is in cooperative tenure, a sector which is not very well developed in western Europe.

The transition period witnessed only a small change in the tenure structure of the housing stock. The public rental sector decreased by about 6 per cent, whereas single-family housing recorded a 9.3 per cent increase. The shares of the other tenure forms did not change

TABLE 10  
Tenure structure of the housing stock  
(In percentage)

	Poland		Western Europe <sup>a</sup>
	1990	1996	
Public rental	29.7	23.3	23-56
Private rental	5.2	3.4	
Cooperative tenancy	14.2	12.0	
Cooperative ownership	10.7	11.8	
Single-family housing	40.2	49.5	40-70
Other	-	-	4-7

Sources: European Commission, *Statistics on Housing in the European Community* (Brussels, 1993). Data supplied by the Housing Research Institute. W. Dominiak, *Macro-Economic Conditions of Housing Sector Development in Poland* (1997).

<sup>a</sup> 1992 figures.

significantly. The fact that there has been only a minor shift in the tenure form also implies that a significant part of the stock (over 30 per cent, and with the cooperative tenancy even over 40 per cent) remains in the rental sector. A reasonable number of rental dwellings is a prerequisite for a properly functioning housing market.

During the transition period, part of the public dwelling stock was restituted to its former rightful owners. The restitution figure is fairly low, accounting for 1 per cent of the housing stock in the public sector, especially when one considers that the public rental stock com-

prises only a quarter of the total housing stock. For Warsaw, the indicator is even lower (0.5 per cent of the public dwelling stock). A more significant part of the dwelling stock was privatized, i.e. sold either to the current tenants or to private individuals. In Poland as a whole, about 8.5 per cent of the public stock was privatized. In Warsaw, privatization figures are lower.

### E. Land available for new housing construction

There are no data available on the amount of undeveloped land zoned for residential use, but in general there is a lack of developed land. The shift from high-rise to low-rise and semi-detached housing entails a different way of parcelling, other requirements in respect to the infrastructure and, of course, more space per dwelling.

The provision of developed land at reasonable prices for housing construction is one of the main bottlenecks for new construction. Experience in a housing construction project in Bialystok confirms this. After the municipality had provided developed land at reasonable prices to developers and dwellings had been constructed, it appeared that many buyers could finance the 25 per cent down payment without having to borrow. A policy of providing developed land for housing construction at reasonable prices might therefore lead to a construction boom. Much developable and residentially zoned land had already been granted to housing cooperatives in 1988.

### III. HOUSING ECONOMICS AND AFFORDABILITY

#### A. Investment in housing

In most west European countries, housing construction constitutes a major share of the national economy. Housing construction is generally seen as an important factor in overall economic development. During the transition, investments in Polish housing declined from about 25 per cent of the total investment volume in 1990 to 10.5 per cent in 1996. Other countries in transition show a similar development, though the decrease in Poland is more recent. Till 1993 the share of housing production in total investments was rather high (table 11). In 1992, Poland had similar figures to western Europe, where investments in housing constitute about 20-30 per cent of the total investment volume.

TABLE 11

Investment in housing in selected countries in transition as a percentage of total investment

Country	1980	1991	1992	1993	1996
Bulgaria	13.0	8.7	6.6	-	-
Hungary		22.3	-	14.8	-
Poland	20.8	27.8	22.2	16.2	10.5
Romania	9.3	10.1 <sup>a</sup>	-	5.9	-

Sources: Economic Commission for Europe, *Annual Bulletin of Housing and Building Statistics for Europe and North America*, 1996 (United Nations publication, Sales No. E/F/R.97.II.E.3). Data supplied by the Housing Research Institute.

<sup>a</sup> 1990.

During the transition period in Poland, there has been a considerable reduction in total investment in housing as a percentage of GDP from 5.2 per cent in 1990 to 1.7 per cent in 1996 (table 12). Even though in 1992 the Polish economy started to pick up, housing investments continued to decline and the private sector was not able to compensate for the loss of budgetary expenditures on housing. In comparison with some other countries in transition, in the 1990-1994 period, investments in housing as a percentage of GDP fell most dramatically in Poland and Latvia, 62 per cent and 64 per cent respectively, while elsewhere the figure ranged between 47 per cent in Bulgaria and 22 per cent in Romania (but the latter was at a very low level of housing investments in 1990: 0.9 per cent of GDP). At the same time, like Poland, other countries also experienced a decline in the share of housing investment as a percentage of GDP after positive economic changes in 1993, which is an indication of the internal restructuring in investment priorities moving away from housing to trade, services and other sectors and shifting from new housing construction to modernization of the existing building stock.

TABLE 12

Total investment in housing as a share of GDP

	1990	1992	1993	1994	1995	1996
Housing investment	5.2%	3.9%	2.6%	2.0%	1.9%	1.7%

Sources: Housing Research Institute, *Construction in 1994 (monitoring)* (Warsaw, 1996). Data supplied by the Housing Research Institute.

TABLE 13

Investment in new housing development in selected countries in transition

Country	Housing investments			New housing construction		
	As percentage of GDP 1990	As percentage of GDP 1994	Change (percentage) 1994/1990	Dwellings per 1 000 population in 1990	Dwellings per 1 000 population in 1990/1994	Change (percentage) 1994/1990
Albania	1.4	..	..	3.9	3.7	95
Bulgaria	1.5	0.8	53	3.0	1.1	33
Croatia	3.2	2.0	63	3.9	2.0	51
Czech Republic	3.2	2.4	75	4.3	1.8	42
Estonia	..	0.2	..	4.8	1.3	27
Hungary	4.2	2.8	67	4.2	2.1	49
Latvia	4.5	1.6	36	5.0	0.3	6
Lithuania	..	2.7	..	6.0	1.8	30
Poland	5.2	2.0	38	3.5	1.9	54
Romania	0.9	0.7	78	2.1	1.6	76
Slovakia	..	0.2	..	4.9	1.3	27
Slovenia	4.2	3.0	71	3.9	2.8	72
Average countries in transition	3.2	1.6	50	3.6	1.8	50

Source: J. Hegedüs, S. K. Mayo and I. Tosics, *Transition of the Housing Sector in the East-Central European Countries* (Budapest, 1996).

TABLE 14  
Housing construction by type of developer  
(Percentage)

	1989	1990	1991	1992	1993	1994	1995	1996
Public	18.3	13.7	9.7	8.9	11.7	9.7	8.5	5.4
Municipal	3.1	2.2	1.9	2.7	4.9	4.7	4.9	3.2
Enterprise	15.2	11.5	7.8	6.2	6.8	5.0	3.6	2.2
Cooperative	45.1	50.0	61.0	63.4	53.0	41.7	39.9	36.8
Private	36.6	36.3	29.3	27.7	35.3	48.6	51.6	57.8

Source: Data supplied by the Housing Research Institute.

Housing production measured in terms of new dwellings per 1,000 population fell in Poland from 3.5 in 1990 to 1.9 in 1994, which is a drop of 46 per cent. Among the countries listed in table 13, the sharpest drop occurred in Latvia (94 per cent), Slovakia and Estonia (73 per cent each), while Albania experienced only a 5 per cent reduction. Despite the reduction in the number of new housing units, it is evident that in Poland, like in other countries in transition, the opening-up of the housing market to the private sector has resulted in a significant increase in quality and size of new dwellings.

Another indicator which shows the relative weak position of the housing sector in the Polish economy is the share of new housing credits. In 1994 housing credits amounted to about 9 per cent of all newly granted credits, while the value of all outstanding housing loans amounted to 19 per cent of all outstanding loans. This corresponds to the decreasing trend in construction output.

Housing construction by the private sector has been gaining importance during the transition. The share of private investment in housing rose from 36.6 per cent in 1989 to 57.8 per cent in 1996. But in absolute numbers the growing share of the private sector still means a severe reduction because of the total drop in production. The cooperative sector showed a decrease in production from 45.1 per cent to 36.8 per cent in the same period. Production by the public sector also fell from 18.3 per cent to 5.4 per cent.

## B. Housing economics

Inflation rates have been declining steadily during the transition years. However, incomes have kept close pace with consumer prices, whereas construction costs have relatively declined. It should be kept in mind that looking at averages does not give a clear view of the real problems. The current market price of a new, standard flat of 60 m<sup>2</sup> of living space is still 8 to 10 times the average annual wage of a skilled worker.

Both physical and legal persons owning real property are subject to real-estate tax. Those managing State property or leaseholders of real estate are liable, too. The Local Taxes and Fees Act set maximal tax rates, which are differentiated only according to the function of the property concerned: residential or commercial. In 1996, maximum tax rates amounted to 0.23 zloty per m<sup>2</sup> for residential buildings or parts thereof; and 8.62 zlotys

per m<sup>2</sup> for commercial buildings or parts thereof (excluding agriculture and forestry). Municipalities, however, do not charge maximum real-estate tax rates for political reasons. Consequently, tax revenues are still quite low.

Tax deductions for housing purposes are also incorporated in the Polish taxation system. For private individuals, tax deductions are available for the construction of new dwellings, for purchasing municipal or cooperative flats, for repaying cooperative housing loans and for repairs and maintenance. The maximum tax deductions are set by special legislation. Companies and other legal persons are also entitled to deduct their investments in housing from their taxable income, but they are not subject to the maximum deductions applying to private individuals.

TABLE 15

### Maximum tax deductions for private individuals, 1996

Purchase of a dwelling or a building plot	64 400 zlotys
Repairs and maintenance	16 800 zlotys
Repayment of cooperative loans	11 340 zlotys

Source: Data supplied by the Housing Research Institute.

## C. Housing finance systems

Two issues had priority in the reform of the housing financing system: (a) the reform of the existing, highly subsidized system for housing construction; and (b) the introduction of new financial instruments.

### *Reforming existing cooperative loans*

The reforms cover the existing financial support especially in regard to the cooperative sector. As a first step a variable interest rate in line with inflation both for co-op owners and tenants was introduced. Due to the high nominal interest rate many households found it very difficult to repay the loans. In an attempt to prevent borrowers from refusing to repay their loans and to alleviate the financial burden on households, several measures were taken successively, for example amortizing part of the debt, capitalizing interest and limiting repayments to a maximum share of household income.

The reforms were aimed at protecting both outstanding loans and borrowers from the negative effects of

inflation. Repayment principles have been changed many times. In 1990, capitalization and partial takeover of interest by the State was introduced. This measure allowed borrowers to add 60 per cent of interest due to the loan principal, whereas 32 per cent of it was amortized by the State. The remaining 8 per cent had to be financed by the borrowers themselves. This system was abolished in 1992, when it became clear that these principles led to an increased burden on the State budget and to liquidity problems for banks.

The second step in the housing financing reforms, in 1992, was the introduction of a so-called standard payment, set at 25 per cent of the borrower's income. At the same time, so-called block loans taken out by co-operatives were split into construction credits for builders and mortgage loans to the buyers of the cooperative dwellings. Both the construction credits and the mortgage loans are described in more detail below.

#### *Reforming the housing booklets system*

The housing savings system was reformed as well. A housing savings system, in the form of so-called housing booklets, had been operational for a number of years. In 1993, the so-called *guarantee premium* was implemented to allow valorization of accumulated savings at the moment of purchase of a dwelling. In 1994 alone, 460,000 people received guarantee premiums, and State budget expenses for this purpose amounted to almost 13 billion old zlotys. Besides this guarantee premium, the old housing savings system provides for *compensation*, a State subsidy for holders of housing booklets. Those applying for compensation have to meet several conditions: they have to be a candidate of a housing cooperative, prove their housing needs and be of legal age. Compensation is earmarked for improving the housing situation by buying a dwelling in private ownership. Compensation can be given in cash or in kind. Applicants can request the sale or leasehold tenure of municipal land, preferential granting of non-residential spaces for converting them into residential premises. Receiving compensation does not affect the housing booklet holder's claim for a guarantee premium.

#### *Mortgages and construction credits*

At the same time as the standard payment was introduced, the so-called *dual index mortgage* system was set up. It protects both deposits and the borrower by establishing instalments at 25 per cent of the borrower's income, indexed to the average increase in wages, thus separating repayment from the variable rate of interest. This system is based on the assumption that in the long run wage and price increases compensate each other. In this case, indexing to wages rather than to prices does not bring about a significant change. There is a risk, however, that incomes may decline, which would prolong the redemption period. The system is most susceptible to this risk in the initial period, when liabilities are still large. The system required State support for the first few years, as well as guarantees for borrowers and banks against rapid changes in economic parameters

(as the repayment of loans is not correlated with changes in capital markets, but, rather, with changes in income levels).

The dual index is used for both construction credits (multi-family construction) and mortgages (individuals). The total production financed by dual index mortgages has been very low due to the competition of highly subsidized credits by the Polish State Savings Bank (for instance, by repurchasing of capitalized interest, 12-month grace periods). However, for loans taken out after 1 April 1995 the Government will no longer repurchase interest.

In 1995 the Polish State Savings Bank started granting new types of loans. The maximum loan amount is the borrower's documented gross monthly income multiplied by 25, or 70 per cent of the market price of the collateral. The interest is variable. Unpaid interest is capitalized. The maximum term is 25 years. This Bank has a near monopoly position for housing loans among credit institutions. In 1990, 84 per cent of all housing loans were granted by the Bank; in 1994, 96 per cent.

Interest on long-term mortgages amounted to 36.3 per cent in 1994 and to 38.5 per cent in 1995, whereas interest on medium-term (one to two years) development loans ranged from 35 per cent to 40 per cent. In 1996 the interest on mortgages was lowered to 30 per cent. Though this declining trend should be seen as a positive development, interest rates are still too high and drastically restrict the number of investors. Housing loans from the Polish State Savings Bank still predominantly come from short and medium-term deposits. Such a system does not provide a stable basis for an increasing supply of loans and for offering a variety of loans. Another complication resulting from the housing policy's emphasis on reducing the inflationary aspects is that it raises expectations among borrowers that the State will continue to bear the financial risks associated with housing loans in periods of high inflation.

#### *Construction credits*

All investors in housing, including companies, co-operatives, individuals and local authorities, can apply for construction credits. These loans are available for a wide range of housing construction projects. Construction credits are primarily targeted at investors in housing, as the loan's term equals the period of construction and sale of the units. Market interest rates are charged on construction credits. An investor must finance 25 per cent of the investment from other sources. For individual families building their own home, construction credits are converted to mortgages after completion. Construction credits must be secured by the property constructed, including land and other buildings. Additional guarantees may be required by the bank granting the credit. In the loan assessment procedures, the financial feasibility of the project and its technical standards are taken into consideration.

### *National Housing Fund*

The 1995 Act on Supporting National Housing Construction introduced a National Housing Fund to support the State housing and construction policy, particularly emphasizing construction of rental dwellings for lower-income population groups. The means for this Fund were provided by the World Bank (US\$ 50 million), the European Bank for Reconstruction and Development (US\$ 65 million) and the United States Agency for International Development (US\$ 35 million). Resources from this Fund are allocated to participating banks, which in turn grant mortgages and construction credits to borrowers. The National Housing Fund is an independent organization under the National Management Bank, primarily funded with State subsidies. It is envisaged that the Fund will become self-supporting by issuing securities. The Housing Fund's resources are designated for preferential loans for housing construction by newly-established social housing associations (TBS) and by housing cooperatives. Loans cover up to 50 per cent of the construction costs.

### *Contract savings system*

In September 1995, a credit and savings system for households with modest incomes was introduced, the so-called contract savings system, which is comparable to the German *Bausparen* system. Participants make deposits for at least three years. After this period, they will be eligible to apply for a loan of up to 150 per cent of their savings, including interest. The savings period may be shortened by maximum 12 months, provided that the participant's housing booklet savings, including possible premiums, are transferred to the contract savings account. Interest on deposits is minimum 25 per cent and on loans maximum 50 per cent of the current National Bank refinancing rate. Loans are granted for purchasing homes, renovation or modernization, purchasing building plots or repaying old housing loans. Participants are permitted to terminate the agreement at any time. If this happens before the end of the agreed savings period, the amount specified in the agreement is refunded, otherwise the fund reimburses the deposited amount plus one year's interest.

Participating banks may set up independent housing funds granting contract loans. The draft law entitles these funds to financial support from the National Housing Fund. Banks will be able to use surpluses in savings above their fund commitments to purchase bonds, bills and other securities from the State Treasury and to make deposits in term accounts. Deposits will be guaranteed by the State Treasury. Housing funds are not obliged to grant loans without a guarantee. In this case, the depositor can either wait for his financial situation to improve or withdraw his deposit and lose the interest. When used for the declared purpose, deposits may be deducted from income tax. Deposits have the same interest rates as three-year deposits. Similar procedures apply for transferring an account. Resources used to repay a loan are tax deductible as well.

## **D. Affordability of housing**

### *Rent policy*

Until 1994, the rents for all residential units (municipal, enterprise-owned and private) were regulated centrally and calculated from a standard basic price per 1 m<sup>2</sup> of floor space, amounting to 0.12 zloty from April 1992. Depending on the type and quality of the building or dwelling, the rent could be lowered or raised by a maximum of 120 per cent. Rent for a standard dwelling, therefore, amounted to 0.26 zloty per square metre. These rents covered barely one third of normal maintenance costs.

In November 1994, the Act on Rental Housing and Housing Subsidies was introduced. It regulates the rents for municipal, company-owned and some older private rental dwellings. Rents are set by the owners at maximum 3 per cent of the so-called replacement value. Surveys, however, indicate that in many cases rents do not exceed 1 per cent of this value. Municipalities often do not charge the maximum allowed rent level. Rents therefore cover only part of the cost of maintaining the country's rental stock. Renovation costs, interest and amortization are not covered.

Regulated rents for municipal property will be in force until the end of 2004, although this period can be shortened, if rent liberalization is not expected to worsen the tenants' financial situation too much. In this case, permission from the regional authorities should be obtained. Tenants of private rental buildings and those occupying dwellings on the basis of administrative allotment will pay regulated rents until the year 2004. Regulated rent levels should take into account the location of the building (central or suburban, joined or detached), the layout of dwellings within the building, building fixtures, appliances and fixtures in the dwellings, and the overall condition of the building, but do not include utility charges (water, central heating and the like). Regulated rents apply to nearly half of all dwellings in Polish cities. Besides regulated rents, liberalized rents were also introduced. Liberalized rents are agreed upon by the landlord and the prospective tenant on the basis of contract freedom. Dwellings over 80 m<sup>2</sup> are subject to liberalized rents, large dwellings can be let by municipalities on the basis of tenders. Regulated rents established by municipalities may not exceed 3 per cent of the replacement value of the unit, set each year by the regional authorities.

### *Affordability*

According to official statistics, average rent expenditures for flats constituted only 1.5 per cent of average household expenses in 1995. Total housing-related expenses (including utilities) amounted to about 6 per cent. Some surveys, however, indicate that the last few years have witnessed a rapid increase. Housing expenses now amount to 15 per cent to 23 per cent of expenditure, depending on the income group. Low-income groups spend about 19 per cent of their earnings on housing. The variety in housing-related expenses is quite large.

Surveys indicate that about 10 per cent of households spend less than 10 per cent of their income on housing, whereas another 10 per cent spend more than half on this item. It should be noted that the increase in housing expenses is mainly caused by higher utility bills.

### E. Subsidies and housing allowances

Poland has quite a comprehensive system of subsidies for the housing sector, comprising both reformed, older elements and new ones. Public expenditures on housing during the transition period varied from nearly 7 per cent of the total public budget in 1992 to 3.3 per cent in 1995. Table 16 gives an overview of the different items on the public housing budget.

TABLE 16

#### State expenditures on housing (In millions of zlotys)

	1995	1996
Subsidies to housing cooperatives	650	450
Repurchase of interest on housing loans	830	1 200
Housing allowances	480	480
Guarantee premiums on housing savings booklets	600	1 300
National Housing Fund (rental construction)	30	50
Mortgage Fund	120	100
Preparation of plots for housing construction	90	-
Total expenditures on housing	2 800	3 580

Source: Data supplied by the Housing Research Institute.

Table 16 also shows that a considerable amount is still spent on "old obligations". Another significant indirect housing subsidy can be found in the levels of regulated rents. Charging rents far below what is necessary to maintain and run residential premises could be seen as an indirect and untargeted subsidy to the rental housing sector.

As some incomes are not declared, there are large uncertainties about exact income figures. However, it is clear that especially for low-income groups the affordability of housing is becoming a problem.

#### Housing allowances

The Act on Rental Housing of 1994 enables municipalities to grant housing allowances to low-income households. Housing allowances are available to tenants of municipal and enterprise-owned dwellings, to members of housing cooperatives and owner-occupiers.

Recipients must meet several conditions, such as limits on income, dwelling size and minimum housing expenditures. Municipalities are legally obliged to pay the allowance to those who are entitled to it, but, in many cases, do not have sufficient resources to do so. Central Government funds allocated for housing allowances

TABLE 17

#### Recipients of housing allowances according to municipality size and tenure form

Population of municipality (x 1 000)	Percentage of households receiving a housing allowance			
	Total	Municipal	Cooperative	Other
< 5.0	13.6	26.7	44.4	12.8
5.1-10.0	14.4	24.6	35.1	8.0
10.1-50.0	11.2	19.3	19.5	4.7
50.1-300.0	6.8	7.7	9.8	3.1
> 300.1	4.4	5.3	5.8	2.1
Total	6.2	7.5	8.7	3.1

Source: Data supplied by the Housing Research Institute.

(in 1994: 1.25 billion zlotys) do not provide sufficient resources for this purpose either.

By March 1995, about 400,000 households had received housing allowances. According to surveys, 7 per cent of the population applied for an allowance. The housing allowance option is used more in smaller municipalities than in cities. The rate of households applying for a housing allowance is higher in the cooperative sector than in others (see table 17).

### F. Social housing and target groups

As part of the housing reforms, a National Housing Fund was established (see section C above). Its resources are earmarked for granting preferential loans to cooperatives with tenant status and to so-called social housing associations. Social housing associations (TBS) are not-for-profit organizations that build and manage dwellings for lower-income groups. New social housing can be let for a maximum rent of 4 per cent of the replacement value, as opposed to the existing housing stock, for which maximum regulated rents are set at 3 per cent of the replacement value. Municipalities are also expected to play an important role in social housing, for instance, by contributing building plots at reasonable prices. Social dwellings are let to lower-income households that cannot afford other housing. The Central Bureau for Statistics estimates that, in 1994, about 30 per cent of all households could be classified as low-income, in view of the fact that 25 per cent of employees had a salary below the social minimum level and that nearly half of the unemployed were not entitled to unemployment benefits.



## IV. LEGAL FRAMEWORK

### A. General

An adequate legal system is a prerequisite for a sound transition from a centrally-planned to a market economy. For the housing sector this means:

(a) Basic constitutional rights of residents to own and inherit land and buildings, freedom of contract and the right to privacy;

(b) The division of power and competence between central, regional and local levels and an independent judiciary, linked with the individual right of recourse to the courts;

(c) Legislation on real-estate ownership;

(d) Legislation on public and private rental housing;

(e) Legislation on condominiums and housing cooperatives;

(f) Legislation on financing and credits in relation to housing;

(g) Legislation on housing subsidies; and

(h) Procedural legislation.

### B. Constitutional framework and constitutional rights

On 25 May 1997 Poland got a new Constitution. It confirms the separation of powers. The independence of the judiciary is safeguarded via tenure and immunity for the judges and their exclusive "subordination" to the Constitution and the Law. Citizens' right to challenge constitutionality has been added to the Constitution to safeguard the rule of law and the rights of citizens.

The legal relations between municipalities and the State have already been changed with the introduction of the principle of local self-government, as part of the constitutional amendment of March 1990 and the Statute on Territorial Self-Government of 8 March 1990. Local self-government is regarded as the main organizational form of local public life. Local self-government is part of the public power (art. 16 of the Constitution) and is endowed with a separate legal identity as well as with the right to own property and other assets. The municipalities are given their own sources of income and have the right to participate in the public revenues according to the tasks they perform.

The Constitution established a number of basic rights: economic freedom, guarantee of private property and

equality of private and public property (expropriation is possible only according to legal proceedings and for compensation).

The right to fully exploit one's property is given only to Polish citizens and local authorities. Foreigners need a special permit to acquire land (and buildings). Acquisition in this context means purchase, exchange, donation, tendering. In all such cases ministerial permission is needed. According to the latest amendment, foreign companies are allowed to acquire *municipal* property without such ministerial permission. The same is true for foreign individuals who want to buy a condominium flat. However, they must have a residence permit for more than five years. Chapter II of the Constitution guarantees civil and citizens' rights, including personal freedom in regard to housing, economic freedom to own property and other valuable assets and the right to inherit. Restrictions are allowed only if specified by law.

### C. Developments in housing-related legislation in 1990-1996

During the first years of transition, most attention was paid to the transformation of the principles of economic life, like the Commercial and Civil Codes, reforms of the banking, the taxation and the institutional systems. After these economic reforms, a number of laws regarding housing were enacted or amended:

(a) Real Estate Act (1996), dealing with the regulation of real property owned by central and local governments, with real-estate market professions, national cadastre valuation and expropriation processes;

(b) Income Tax Act (1991), allowing for tax deductions for housing purposes;

(c) Housing Condominium Act (1994), defining the status of condominiums and housing communities;

(d) Residential Lease and Housing Allowance Act (1994), setting the framework for rent calculation by municipalities and introducing housing allowances;

(e) Building Law (1994), simplifying construction regulations to eliminate some redundant cost-increasing norms;

(f) Physical Planning Act (1994), introducing a more flexible physical planning system by giving local authorities more leeway in land allocation matters. The building permit procedure was simplified and shortened;

(g) Cooperatives Act (1994), defining the operation of cooperatives, including housing cooperatives;

(h) Contract Savings and Non-Profit Rental Housing Act (1995), introducing the contract savings system;

(i) Act on Certain Forms of Support for Housing Construction (1995).

#### D. Ownership and tenure structures

##### *Ownership of land and buildings*

Property rights (ownership and leasehold tenure) are defined and governed by the Civil Code. Ownership is a transferable and inheritable right and a person possessing that right may dispose freely of the object involved, limited only by the principles of community life. This property right is safeguarded and guaranteed by the Polish Constitution: according to its article 7, Poland safeguards the property and the right of inheritance and guarantees the comprehensive protection of personal property. Expropriation is possible only when required to meet public goals and only in exchange for fair compensation.

Individual ownership of premises has been known since pre-war times, but did not play an important role until the transition process started. Amendments to legislation in 1990 (related to the limitation of the size of rooms and houses eligible for establishing individual property ownership) were not deemed sufficient, hence the *Act on Ownership of Premises* (24 June 1994). The Act regulates the establishment of individual ownership of dwellings and/or units serving other purposes, determines the rights and duties of owners as well as the management of jointly owned property. Ownership title can be established by means of a contract, a unilateral decision of the owner—both in the form of a notarial deed—or a court decision ruling on the partition of joint property, distribution of an inheritance or dissolution of co-ownership.

A new means of establishing individual property is the contractual (notarial deed) *obligation to build*—on one's own property—dwellings designed for individual ownership. All the above-mentioned forms of establishing individual property need to be entered in the land and mortgage register. As a result, an investor is able to collect advance payment from future users, thus limiting the principal of the loan to be obtained from a bank for construction purposes. Buildings erected by the owner or already existing belong to the person who possesses the land. It goes without saying that the owner of this interest may, to the exclusion of others, enjoy and exploit the fruits of the property, but that he may do so only "in accordance with the principles of social cooperation". The right of ownership is subject to the limits prescribed by statute, as in all legal systems. Thus, for example, the owner is subject to town-planning legislation.

Leasehold tenure is similar to ownership: it is a transferable and inheritable right, normally granted for 99 years for which a yearly fee (first fee 15-25 per cent of the value) has to be paid. After its expiration, the buildings belonging to the user have to be compensated (at least 25 per cent of their value). The existence of leasehold tenure enables the State and the local authorities to allow their lands to be used for social needs, in particular for construction.

##### *Rules on rental housing*

*Lease* is the most widespread form of using land and/or buildings. The basic definition of the Civil Code states the tenant's right to use an object (including dwellings) for either a specified or an unspecified time against the payment of an agreed rent to the owner. The freedom to choose the contractual partner, i.e. the tenant, and to agree on a rent has long (since 1919) been heavily restricted by the administrative control of housing allocation, the so-called *kwaterek*.

Due to the housing shortage and the lack of funds for construction or reconstruction, the State continuously had to make (minor) exemptions, thus freeing, for instance, five-room owner-occupied single-family houses and cooperative dwellings from administrative control. Rent regulations, setting rents at a very low level, and insufficient State funding of construction and renovation led to a continuous deterioration of the technical and functional state of the housing stock. The cooperative stock, not being subject to administrative control and regulated rents and being financed by the cooperative's members, is in a much better condition.

Currently, the *Residential Lease and Housing Allowance Act* (2 July 1994) is the main legal basis for renting out residential dwellings, multi-storey houses, single-family houses and co-op dwellings. Although the Act exempts a large share of the stock from administrative control, it is still based on the principles of housing allocation. Dwellings in these exempted categories that had been allocated under administrative control, can be vacated, provided that the tenant is offered alternative housing. The provisions of the Civil Code apply to all housing categories not regulated by the Act, i.e. temporary lease, occasional lease, lease of parts of a property and sublease of dwellings. The Civil Code, however, constitutes the basis for general rules on the contractual relation between tenant and owner, on termination of contracts, on sublease, on the owner's obligations to deliver the property in a condition fit for the agreed use and to keep it in such condition during the tenancy.

The *Residential Lease and Housing Allowance Act* responds to practical problems that have emerged in recent times:

- Specification of reasons for terminating the lease;
- Evictions following a court ruling are legal and enforced (no longer by the housing agency but by court executive officers);

- The former prerequisite of providing alternative accommodation for evicted tenants no longer exists;
- Rents are still regulated until 2004 (at the latest). Rent levels are set by the municipal authorities; and
- The division of maintenance and repair works between owners and tenants is regulated in detail.

Finally, the Act outlines the local authorities' responsibility for housing policy, i.e. establishing rent levels, keeping up the municipal housing stock, supplying social housing and paying housing allowances (a major part of the Act). The State's financial contribution in accordance with the Budgetary Act is also mentioned in the Act.

#### *The cooperative sector*

Housing cooperatives operate on the basis of the Cooperatives Act, which has undergone substantial changes in the last few years. The right to premises—either a tenancy or an ownership right—is linked to membership of the given cooperative. There is no forced membership: cooperatives decide on applications. As in other west European countries, Polish housing cooperatives finance, construct, maintain and administrate their own stock for their own members. Tenancy rights, i.e. permanent lease, fall within the scope of application of the *Residential Lease and Housing Allowance Act*, which also regulates the rents of cooperative dwellings.

The Cooperatives Act offers three major categories of cooperative rights:

- Tenancy right—the right to use the dwelling, to pass it on to a spouse or another close relative, to transfer the tenancy into an ownership right. The dwelling share, a financial contribution to the cooperative, which is a prerequisite for obtaining a dwelling, covers only part of the total construction costs of the dwelling involved;
- Ownership right—the right to use, to transfer and to inherit the dwelling, to own jointly the common property (land). The ownership share, the corresponding contribution for acquiring ownership right to a cooperative dwelling, covers the full costs of construction;
- Ownership of a single-family house can be obtained before or after construction. It is tantamount to full ownership.

All transfers, acquisitions and divisions of cooperative estates and property require a notarial deed and registration in the land and mortgage register.

#### *Condominiums and condominium administration*

As part of the legal reforms, the Housing Condominium Act was introduced in 1994. This law was seen as a step forward towards a clear definition of the rights and obligations of condominium owners, although the hous-

ing community, the proposed association of co-owners, was not defined as an independent legal person. Individual property and jointly owned property of the plot of land are connected with each other and cannot be dissolved as long as the individual property exists. The Act spells out the duties of owners, for instance to bear the common costs related to maintenance, repair and management. Management can be contracted out or can be carried out by an appointed co-owner. For the time being, the former municipal maintenance units continue to do the management. Although the housing community is not a legal person, obligations related to the jointly owned property are carried out jointly by the co-owners according to each owner's share in the common property. The housing community may also sue or be sued in a legal procedure. Owners who persistently disregard their obligations can be forced—by a court ruling—to sell the dwelling. The first experiences with the new Act indicate that complex legal problems can arise from partly privatized municipal or enterprise apartment buildings where the new co-owners cannot bear the cost of maintenance and improvements.

#### **E. Title registration, land register and mortgage system**

Mobilizing private investment for urgently needed new construction and modernization of the housing stock requires clear and safe mechanisms. The typical instrument, the real-estate mortgage, is well known and has a long tradition in Poland. Although in substance the mortgage law meets European standards, foreclosure is very ineffective (mainly for private banks), due to poor ranking of the real-estate mortgage and the time-consuming execution of foreclosure.

Closely related with the mortgage system is the title registration and the keeping and updating of the land registers. For the time being the transfer of property, i.e. the registration of the (new) owner of real property, is not a prerequisite. However, land registers exist, and investors can demand registration of the real estate and the mortgage. The old and incomplete land register is being updated: a central court registration is being established. It will consist of a commercial register, a pledge register (for the registration of security rights in personal property) and a land register.

#### **F. New developments in housing-related legislation since 1996**

##### *Amendments to existing acts*

The Act of 1 August 1997 amends the Act on Certain Forms of Support for Housing Construction. The Act defines principles relating to savings and the provision of contractual loans for housing, the operating principles of the national housing fund and of social housing associations and of the official body dealing with housing and urban development. The funds available to the national housing fund are allocated for granting loans on

preferential terms to social housing associations and housing cooperatives for the construction of dwellings destined for lease. These loans finance not more than 70 per cent of the cost of the project. Ten per cent of the costs of the project is amortized after its completion and settlement. A social housing association may lease a dwelling to an individual person, only if: (a) the individual and the members of his household on the day they take up the dwelling do not have legal title to another dwelling; and (b) the household income on the day of conclusion of the lease does not exceed 1.3 times the average monthly salary in the province plus:

- (i) 20 per cent in a single-person household;
- (ii) 80 per cent in a two-person household;
- (iii) by a further 40 per cent for every additional person in a larger household.

In dwellings built with credits from the national housing fund by housing cooperatives or social housing associations in which most of the shares are owned by a housing cooperative, preference is given to those members of the housing cooperatives who became members before 29 November 1991 and have been on a waiting list for a dwelling and to candidate members of housing cooperatives.

The Act of 21 August 1997 amends the Residential Lease and Housing Allowance Act and the Cooperatives Act. The Act governs the regular leasing of separate dwellings and the principles of housing benefits. It introduces 35 changes. The most important are:

(a) Housing deposits have been restored. In particular, it has been decided that a lease, except for social and substitute dwellings and exchanges of dwellings, may be conditional on the lessee paying a deposit securing the payment of the rent due to the lessor when the former vacates the dwelling. The deposit is returned if the tenant fulfils his obligations upon vacating the dwelling;

(b) The circle of close relatives who can take over the lease of a deceased lessee has been extended. Now his descendants, parents, adult siblings, adopted children and his spouse or partner, living with him up to his death, can take over the lease and acquire his rights and obligations with regard to the dwelling, unless they waive these rights in relation to the lessor;

(c) If no one is entitled to take over the lease or if those who are entitled waive their rights, the lease expires;

(d) The removal of unauthorized occupants has been regulated in a new way. In case of unauthorized occupation of a dwelling, the person whose rights have been infringed may remove the perpetrators with the help of the police or communal guard. If they are not removed within three months from the date of the dwelling being illegally occupied, the person whose rights have been infringed may apply for the occupants to be evicted by way of recourse to the law;

(e) New principles for notices of termination have been introduced. Notice of termination is obligatory only if there is an increase in the freelease rent. A resolution

of the Commune's Council determines the amounts of the rent for the next 12 months. Such a resolution comes into force after at least one month from the day of its announcement, from the beginning of a calendar month. The house administrator or other person authorized to collect rents is obliged to notify the lessee in writing about the new rent, not later than seven days before the resolution comes into force;

(f) The right of eviction has been extended. So far, only the lessor had such a right. At present, if the lessee blatantly or persistently contravenes the order in the house, making it difficult for others to use other dwellings in the building, an action to terminate the lease and an order to vacate the premises can be brought before a court of law by another lessee, by the holder of cooperative title to the dwelling or by the owner of another dwelling in the same building. A co-lessee may bring an action before a court of law to evict a spouse, a divorced spouse or another co-lessee, if he/she makes cohabitation impossible;

(g) Fines on people who occupy dwellings without legal title have been mitigated. Compensation for occupation without legal title equals 200 per cent of the rent. At present, this regulation is not applied if the occupant is entitled to a substitute or social dwelling. When such a person is given a substitute or social dwelling he/she pays compensation for the use of the dwelling, but only an amount equivalent to the normal rent.

The Act of 22 August 1997 amends the Act on Housing Unit Ownership. It defines individual ownership titles to independent dwelling units, the rights and obligations of the owners and common property management. It introduces 10 changes, of which the most important are:

(a) Any spaces attached to a separate housing unit and constituting part of it have been defined in a different way. Other spaces may now be attached to a dwelling unit, even if they are not directly adjacent to it, especially a cellar or a loft, unless a legal act or a court ruling stipulates otherwise;

(b) Owners have been given the right to grant permission for the construction of an additional storey or the conversion of common real estate, to establish an individual ownership right to the dwelling unit created as a result and to dispose of such a dwelling unit as well as to change the proportion of shares as a result of this new ownership;

(c) Owners of dwelling units have acquired the right to appeal to a court against a resolution of the owners if it does not comply with the law or does not have the owner's agreement, or if it infringes the rules of proper management of common real estate or infringes their interests in any other way. The lawsuit can be brought against a housing unit community within six weeks from the date of adoption of the resolution at a meeting of all the owners or from the date on which the plaintiff is informed about the contents of the resolution adopted by way of individual collection of votes;

(d) The owners have been given management control. The new regulation stipulates that every owner has the right to control the management.

#### *New legislation*

The Act of 20 December 1996 on municipal economy defines the principles and tasks of the municipalities to satisfy the collective needs of the self-governing community, such as providing public services.

The Act of 5 June 1997 on savings systems and State support to savings for housing purposes defines the principles of saving for building purposes, and mortgages. The savings systems are run in the form of banks established as joint stock companies. The savings banks exclusively take deposits from individuals for special savings accounts and grant them mortgages.

The Act of 21 August 1997 on real-estate economy defines principles for:

- (a) Management of real estate owned by the State Treasury and municipalities;
- (b) Partition of real estate;
- (c) Integration and partition of real estate;

- (d) Right of pre-emption;
- (e) Expropriation and restitution of real estate;
- (f) Participation in the costs of construction of technical infrastructure;
- (g) Valuation of payment for real estate; and
- (h) Professional real-estate management.

Professional activity in real-estate management is understood as property expertise, real-estate trade brokerage and real-estate management. The Act defines the requirements for professional certification and licences for real-estate experts, real-estate brokers and real-estate administrators.

Municipal boroughs have begun work on local housing strategies without sufficient experience in that field. Advice is obtained from organizations representing foreign funds. The Housing Research Institute was commissioned by the Housing and Urban Development Office to carry out a study entitled "The Housing Strategy of a municipal commune". The study has been disseminated to all towns with more than 20,000 inhabitants. The Housing Research Institute also organizes regular training for local housing staff. But there are still many financial barriers to housing development at the local level, particularly in view of the municipalities' increasing tasks.

## V. INSTITUTIONAL FRAMEWORK

### A. General

The transition from a centrally-planned to a mixed market economy requires far-reaching and comprehensive changes throughout the institutional framework, from central government through to the private sector. The need for such change is particularly important for the housing sector, which had special political and social significance under the old, centralized system. Poland has, since the beginning of transition, overhauled the institutional framework governing its housing sector. This is particularly true at central Government level. The period under communism has, however, left particular problems for the housing sector at the municipal level and in the private sector. In addition, the attitudes of the population at large to housing issues, and the inadequacy of non-governmental organizations (NGOs), still present significant bottlenecks to further progress.

### B. National institutions

#### *Parliament*

Poland's Parliament with its two chambers, the *Sejm* and the Senate, is the country's central legislative authority. Housing issues are the responsibility of the Commission on Spatial Planning and Housing Policy. The Commission is responsible for presenting legislation proposals on housing to the Parliament. Parliament also nominates a Citizen Rights Spokesman, who also advises the Government on housing issues.

Since 1993/1994, the Parliament has passed a number of resolutions on legal and financial matters with far-reaching consequences for the housing and construction sectors. Whilst until 1993 it could be argued that the Parliament and the central Government were hindering the transition of the housing sector, by their inactivity, this is not the case today.

Within Parliament's decisions on fundamental changes in the housing sector there are, however, still some elements of unnecessary central control. Examples of this are the strictly regulated rent control for local authority rental housing, and the detailed central examination and control of the statutes and regulations of the new local Rental Housing Associations (*Towarzystwa Budownictwa Społecznego*). In both these examples greater efficiency, flexibility and adaptation to local conditions could be achieved by giving the municipalities and, if necessary the Government's regional

representative (the *voivods*), greater freedom of action. On the whole, however, Parliament's structure and activity, including that of its Commissions, have proved able to make the necessary decisions to change the fundamental framework of the housing sector.

Until the end of 1996 the responsibility for housing at Government level was placed under the Minister for Physical Planning and Construction. At the beginning of 1997 this Ministry was abolished. The Government's responsibility for housing and housing-related activities were restructured as follows:

#### 1. The Prime Minister's Office:

- European integration and international relations.
- Design and implementation of State housing policy.
- Housing finance.
- Housing and Urban Development Office.
- Spatial planning and development.
- Urban development.
- Housing stock management.
- Municipal infrastructure development.
- Real-estate management and market development.

#### 2. The Ministry for the Interior and Administration:

- Regulation of construction and supervision.
- Building technology and architecture.
- Land survey and cartography.

#### 3. The Ministry for the Economy:

- Promotion and export of the Polish construction industry.
- Trade and service within the construction sector and related fields.

These changes were aimed at making the State's involvement in all areas, including housing, more efficient. The transfer of central housing responsibilities to the Prime Minister's Office seems to indicate a higher political priority to housing as an element of overall State policy. This follows naturally from the high level of activity in the housing sector affecting both Parliament and Government during the period from 1993 to 1997. The Prime Minister's Housing and Urban Development Office is responsible for taking legislative initiatives, including the preparation of bills and acts, and other action for approval by Parliament.

### C. Regional institutions

Poland is divided into 49 *voivodships* headed by a *voivod* representing central Government at the regional level. The *voivod* executes central Government control over social and economic development, physical planning, environmental protection, and social needs. The need for effective regional policy-making and institutions was not appreciated in Poland during the early years of the transition period. From 1993 onwards, this need has, however, been recognised and has led to a gradual increase in regional policy-making and institutions, both in the public and in the private sector.

At parliamentary level, there has been increasing awareness of the need for regional development policies and coordination of such policies between various agencies and institutions. This political awareness led to the establishment, in May 1995, of the Sub-Committee for Regional Policy and Rural Area Development, affiliated to the Economic Committee of the Council of Ministers. In September 1995 the Parliament established an Extraordinary Committee to review governmental regional policies. Both Committees bear witness to the political awareness in the Parliament of the need for long-term structural solutions to the regional policy problems in Poland.

At the interregional level the establishment of the following institutions has been of significance:

1. The Industrial Development Agency.
2. The Polish Agency for Regional Development.
3. The National Association of Regional Development Agencies and Foundations.
4. The Municipal Development Agency Foundation.

Although these institutions, together with private-sector and non-governmental institutions at interregional level, are working actively within their separate fields, the basic problem of how to coordinate the activities of the different institutions remains unsolved.

At intraregional level the introduction of the Act on Self-Government in 1990 led to the dismantling of the earlier national *Voivodship* Councils. They were replaced by *Voivodship* Local Government Assemblies (*Sejmiks*). They represent the interests of municipalities in relation to the regional State administration. The *voivod* and the regional assemblies are, to a large extent, without executive powers. The *voivods* are, however, today the principal institution for intraregional policy. This policy is in the main carried out by the Regional Policy and Regional Development Departments in the *voivodship* offices. The regional assemblies are not constituted as elected representative bodies at regional level.

In addition to their lack of executive powers, the *voivods* are to a great extent overburdened with day-to-day problems and therefore not always able to concentrate on strategic policies and issues. Moreover, the *voivods* are not able to influence either public or non-public institutions at the *voivod* level.

There are a number of special-purpose administrations at regional level with considerable resources at their disposal. Most of these units are State institutions operating on the regional level. There are approximately 30 types of such institutions including about 20 at the supra-*voivodship* level, five at *voivodship* level and 4 at supra-municipal level.

These regional State institutions are marked by:

1. An evident lack of cooperation and coordination between them; and
2. The absence of effective cooperation between *voivods* and these institutions.

Both are significant problems hampering effective governmental regional policy coordination, and severely limit the possibility for municipalities to effectively influence regional State policy. In short, it is our view that the development of the housing sector, which in a number of cases must be considered as a regional strategic policy element, cannot be effectively addressed by the present structure and functioning of regional institutions. The *voivod* controls and approves each local authority's rental policy for the housing stock under rent control. It issues regional statistics on housing construction costs used as a basis for the funding of new rental housing through the national housing fund. The effects of both these controlling powers are considerable.

### D. Local authority institutions

#### General

In 1990 the Act on Self-Government (*Ustawa o Samorządzie Terytorialnym*) accorded self-governing powers to municipalities within the two-tier administrative division of the country into 49 *voivodships* and 2,465 municipalities. A municipality can be a city, a cluster of small towns and surrounding villages, or a group of villages. The municipal system is characterized by a moderate concentration of the population in large urban areas. The 42 cities with a population exceeding 100,000 are home to approximately 30 per cent of the country's population, and 49 per cent of the total urban population. The population of this group of cities has slightly declined during the transition. Warsaw has a population of approximately 1,650,000, or 4.3 per cent of the total population.

The municipalities are legal entities empowered to perform public tasks in their own name and on their own responsibility. They may further be entrusted with the execution of government tasks on the condition that they are guaranteed appropriate financial resources for such tasks. All public matters with local impact which are not specifically allocated by acts to other entities are the responsibility of the municipality. The Act on Self-Government specifies the basic task of the local government as meeting the needs of the population, and in particular:

- Land-use planning, land management and protection of the environment;

- Water, power, heat supply and waste management;
- Local roads and public transport;
- Health care and social welfare;
- Education and culture;
- Municipal housing;
- Public order.

The municipalities manage their finances independently, on the basis of a budget passed by their municipal council. Their main sources of income are taxes and fees levied by Parliament, a share in the income of the State budget, income from municipal assets, general subsidies from the State budget, and earmarked grants from the State budget for the tasks delegated by the central Government. Municipalities may not levy their own local taxes and are not empowered to conduct economic activity beyond that related to the provision of public services. They may, however, take out loans and issue bonds.

A new Law on Municipal Economic Activity came into force in February 1997. This Law regulates the manner in which municipalities may conduct economic activity. This Law has considerable significance for public/private cooperation and partnership at the local level. It does, however, contain ambiguities which may prevent, or slow down this much needed cooperation, particularly in the housing and development sectors. In general, the political administrative structure of municipalities is made up of:

- A council with its subordinate committees;
- A board with executive responsibility and power;
- Departments with administrative responsibility;
- Budget entities with specific administrative responsibility, e.g. management and administration of the municipal building stock.

#### *Local authority responsibility for housing*

The introduction of the Act on Self-Government in 1990 made municipalities responsible for meeting the housing needs of their inhabitants. All other laws regulating the housing sector, however, remained unchanged until 1994. These laws regulated in detail both the goals and practical aspects of housing.

Owing to this degree of centralization, municipal local governments were not able to introduce any significant reform in their housing policies prior to 1994. Local housing policy was reduced to ad hoc real-estate management, housing stock administration and financing maintenance and repair.

The housing laws that came into force in the second half of 1994 (Housing Condominium Act—*Ustawa o własności lokali* and Residential Lease and Housing Allowance Act—*Ustawa o najmie lokali i—dodatkach mieszkaniowych*) and in 1995 (Act on Certain Forms of Support for Housing Construction—*Ustawa o Niektórych Formach Popierania Budownictwa*

*Mieszkaniowego*), introduced major changes in the housing sector. Municipalities became partners of the central authorities in creating housing policy and can now, in principle, contribute significantly to improving housing conditions and housing development within their territories.

The most important municipal obligations concerning housing regulated by these laws are:

- Meeting the housing needs of the population;
- Securing social housing for low-income households;
- Building new housing;
- Paying and controlling housing allowances and subsidies.

Municipalities are allowed to:

- Decide on rules for the management of the municipally-owned housing stock (including rules for allocation to tenants);
- Determine regulated rents (within maximum set by the Government);
- Decide on policies and criteria for the sale of municipally-owned housing units;
- Plan and develop land for new housing construction.

On the basis of the Act on Certain Forms of Support for Housing Construction, municipalities are able to:

- Establish or join non-profit Rental Housing Associations, TBSs (*Towarzystwa Budownictwa Społecznego*).
- Apply to the National Housing Fund for partly financing (50 per cent) the cost of construction of new rental housing (only for TBSs).

The present legal framework therefore gives the municipalities considerable freedom to *define* their own comprehensive housing policy, to *implement* this policy and to *monitor and analyse* its results.

The present legal framework and its practical application by central authorities do, however, still limit municipal freedom in the housing sector unnecessarily. Examples of this central hold are the ceiling on rent in rent-controlled municipal housing (max. 3 per cent of reconstruction value), the maximum rent in new rental housing by TBSs (max. 4 per cent of reconstruction value), and the very detailed control on statutes and founding acts of TBSs. These ceilings and regulations unnecessarily limit the municipalities' freedom to satisfy local housing needs, and to achieve clearly targeted social objectives.

Even more important, however, is the continuing lack of adequate financial instruments to support the municipal activity in housing. This is creating serious obstacles with regard to:



- New construction of ordinary municipal rental housing; and
- Repair and renovation, including energy-saving measures, in the existing municipal housing stock.

The lack of financial instruments for financing critically needed repair and renovation to maintain the value of the existing housing stock, is seriously threatening the present standard of housing provision in Poland.

A major obstacle to the municipalities taking advantage of the new framework for housing provided by central authorities since mid-1994 is, however, the municipalities' own responsibility. Introducing independent local government in a country which for decades has been functioning in a centralized legal and administrative system is taking time and facing formidable obstacles. Municipalities' lack of general experience as independent operators in a market system, and in particular the lack of political and administrative structures, procedures and staff experienced in housing is today slowing down the transformation in the housing sector.

Although individual municipalities are developing creative solutions to some of their problems in housing, and the Government has initiated a pilot project mostly among large cities, there is a serious lack of general guidelines for strategic and organizational changes in the housing sector at the municipal level. Successes and failures of experimental solutions in individual municipalities are not systematically disseminated.

#### *Availability of land for new housing construction*

The end of State subsidies for housing construction and the termination of State and municipal financing of infrastructure for multi-family housing development, coincided with the introduction of a free market in the sale and purchase of land. Due to the resulting shortage of land put on the market, land prices increased rapidly together with prices charged by local authorities for tenure of municipal land. Together with the rapid rise in the cost of building materials, power and services, this resulted in a steep rise in the cost of housing construction, and ultimately a collapse in the construction of new housing.

The availability and price of land for new housing construction are critical factors for revitalizing the housing sector and thereby achieving social and economic goals. The municipalities must maintain a central role in securing such availability at regulated prices, at least for the construction of social and rent-controlled housing.

A rapid sale of municipal land at maximum market rates for short-term economic gain does not promote a sound long-term revitalization of the housing sector. Instead, municipalities need to develop long-term strategies where availability, development, pricing and sale of municipal land are deciding factors.

In this context it is also necessary to evaluate State and State enterprise land within the municipal borders. If

not strictly required for national or economic reasons, such land should be transferred to municipal ownership.

## **E. The capital city of Warsaw**

### *General*

The capital city of Warsaw is a special case of a self-governing institutional structure. The city consists of 11 self-governing municipalities. Out of a total population of 1.63 million, the largest municipality, Warsaw-Centre, has 937,000 inhabitants, and the smallest, Warsaw Wilanow, 12,000. Warsaw-Centre is again subdivided into seven districts, operating mainly as advisory and executive bodies for the municipality.

The self-government system of the capital is governed by a special Parliamentary Act "Constitution of the Capital City of Warsaw". The present system is under review, particularly with regard to the division of competence within the municipality of Warsaw-Centre and between the municipality and its districts. Housing matters are the responsibility of the Housing Policy Group within the Town Planning Division. The Group issues the yearly "Warsaw Housing Report". The capital does not, however, have an overall, strategic housing policy, nor central elements of such a policy.

Within the present legal regulations, full self-government responsibility for housing rests with the individual 11 municipalities of the capital. For 10 of these the preparation for and execution of housing tasks are broadly in line with the practice in other large urban municipalities in Poland. Warsaw-Centre, however, due to its district structure, presents a special self-government case, for the housing sector as well. As this municipality covers the great majority of the population and the housing stock of the capital, policy, institutions and practices here will dominate housing development, and hence significant economic, spatial and environmental elements of the capital itself.

### *Municipality of Warsaw-Centre and its districts*

In Warsaw-Centre, the Council is the highest self-government authority on housing matters. Until now the Council has concentrated its discussions and resolutions on housing on:

- Regulating rent policy within the legal national framework;
- Resolving allocation criteria for municipal rental flats;
- Setting rules for the sale of municipally-owned flats and commercial property;
- Structures and procedures for the administration and management of the municipally-owned housing stock.

Moreover the Council has full self-government powers on other issues which considerably influence housing development, in particular:

- Deciding on yearly budgets and economic programmes;
- Defining conditions for land use;
- Deciding on the development of municipal infrastructure.

At present housing problems may be examined and submitted to the Council by three permanent committees:

- The Committee on Municipal Economy and City Engineering;
- The Committee on Economic Policy;
- The Committee on Budget and Finance.

These Committees have equal powers and act independently from one another. They are subject to the municipal Council. Besides housing problems they deal with many other problems not connected with housing.

Apart from the permanent Committees, a team for the creation and management of the municipal housing stock has been established. The team, led by the Vice-President of Warsaw-Centre, consists of councillors working in different permanent committees, and municipal clerks. Its role is to initiate various projects to improve the housing situation in the municipality.

The District Councils within Warsaw-Centre are advisory bodies for the municipal Council. Their authority is regulated by their statutes as laid down by the municipal Council, and other municipal Council resolutions.

The District Council has no decision-making authority on any important procedures concerning housing. It may however:

- Propose resolutions to the municipal Council;
- Advise on specific questions when required by the municipal Council;
- Perform other tasks when authorized by the municipality, Warsaw-Centre.

The District Council is totally subordinated to the municipal Council as far as the preparation, resolution and execution of decisions connected with housing are concerned. Neither does the District Council have separate committees dealing comprehensively with housing problems.<sup>4</sup> The housing tasks are distributed among different committees, which very often have a structure similar to that of the committees under the municipal Council.

The structure and responsibility of administrative bodies in Warsaw-Centre are laid down in the "Organ-

izational Regulation of Municipal and District Offices" issued by the municipal Council.<sup>5</sup> This applies to administration both at the municipal and at the district levels.

According to this Regulation there is only one municipal department with housing responsibility, the Housing Policy Department, and one department for housing in each district, the Tenancy Department. The Housing Policy Department collects and analyses data on the housing stock in the municipality, prepares proposals for new construction, maintenance and administration of existing housing stock, and coordination of its administration. The Tenancy Departments have responsibility for the day-to-day administration of the housing stock and housing allowances, particularly allocation of housing units and allocation and payment of housing allowances.

Moreover, many other tasks connected with housing are "hidden" in other municipal and district departments' spheres of activity:

- The Communal Buildings Departments: at the municipal level, the Communal Buildings Department keeps a record of the housing stock, prepares the foundations for policy as far as the administration of communal buildings is concerned, coordinates the execution of this policy, and analyses the efficiency of the present administration of the housing stock. At the district level, the Communal Buildings Department cooperates with communal building administrators, tenants and condominiums;
- The Geodesy and Property Department has partial responsibility for the sale of municipal flats and the sale/lease of land for new construction;
- The Development and Economic Department's competencies comprise identifying land for new construction as well as laying down conditions for new housing investments;
- The Architecture Department's competencies comprise defining the need for land for new construction, its location and conditions for development.

All the districts have separate housing administrations (ZBK) and a number of area administrations (ADM). ZBK is a municipal organizational and budgetary unit. There is one ZBK for each district. The ZBK director is subordinated to the District Board Director. ZBK's responsibility is to administrate the municipal property (buildings) and administrate municipally-owned flats in condominiums.

The most important tasks of the ZBKs are to:

- Maintain buildings and communal equipment in good technical condition;
- Collect rents and other payments due;
- Secure communal services for the property;

<sup>4</sup> Housing committees under District Councils deal only with the drawing-up of lists of candidates for allocation of municipal flats.

<sup>5</sup> Resolution of Warsaw-Centre Council No. 208/XXIII/95 of 5 October 1995.

- Enter into rental contracts; and
- Administrate condominiums.

ZBK performs these tasks with its area subsidiaries, ADMs and the organizational units in its head office. ADM managers report directly to the ZBK director. Although the organizational structure varies considerably between ZBKs in different districts, their principal structure is similar and consists of four departments:

- Technical—maintaining the housing stock in good technical condition;
- Operational—day-to-day management of the stock;
- Accountancy—in charge of all financial operations of the ZBK;
- Department of the ZBK director comprising units and independent posts assisting all ZBK activities. ADMs are also part of this department.

In conclusion, the political and administrative responsibilities for housing in Warsaw as reflected in its organizational structures, established procedures and results, hamper the city's social and economic development. The lack of clear overall political and administrative responsibilities and tasks is a barrier to the formulation and execution of a housing policy for the capital. It also severely limits the practical results of the significant legal and other framework changes for housing made at the central level over the last few years.

## F. Institutions and participants in the private sector

### *General*

The private sector is becoming the driving force in the Polish economy. Due to its increasing strength, it influences, and often dominates, the development of individual municipalities. Due to the lack of municipal policies and strategies on physical development and land use, decisions are often taken ad hoc, based on strong private-sector pressure or vested interests.

In the development of cooperation between municipalities and private-sector economic entities, an important role is being played by banks, Chambers of Commerce and other professional/economic organizations. For such cooperation to become effective and beneficial to municipal development, it is again necessary to underline the need for speedy changes in organizational structures, procedures and training of personnel at the municipal level. Only if municipalities become equal partners in such cooperation can projects be executed to yield optimal social, economic and development benefits both to private and to public participants.

The lack of experience with cooperation and dialogue in Polish society over the last 50 years complicates the search for solutions. This problem must be addressed urgently if more progress is to be made and conflict avoided. Again, fundamental changes at the municipal level are central to achieving this objective.

### *Regional non-governmental institutions*

Regional development agencies and foundations perform an important role at the *voivodship* level. Such independent non-governmental organizations working to achieve regional development and establish a regional infrastructure were first started in 1991. By 1996 there were approximately 60 regional development agencies and foundations operating in more than 40 *voivodships*. Today they are independent and separate from political issues, and work to a great extent by local initiative.

The problem of coordination between the private sector and the regional institutions themselves, and between these institutions and the governmental institution at regional level hinders the formulation and execution of regional policy at *voivodship* level (see also section C above).

### *Housing cooperatives*

The housing cooperative movement has gone through a critical period. As quasi-governmental, rigidly centralized building and home appropriation agencies before 1990, they lost credibility as effective agents in a market-oriented housing sector.

Housing cooperatives today, however, are operating on west European principles, with a high degree of individual ownership. They should clearly be considered as the main developer of new housing. In the first half of 1996, cooperatives were responsible for 77 per cent of all new housing construction in Warsaw.

### *Owners' and tenants' associations*

Housing organizations, representing special interest groups, are increasing rapidly. The most important are:

- The State Housing Movement, consisting both of tenants and owners. It not only evaluates legal solutions but also presents its own housing policy suggestions;
- The Polish Union of Property Owners, uniting present and former owners, exerts pressure to accelerate the re-privatization of the nationalized housing stock;
- The Polish Union of Tenants takes part in the preparation of legislation and tries to advocate the rights of tenants;
- The All-Polish Tenants Interest Protection Movement, a national association, provides free consultation and help to tenants. The Movement has local representation;
- The Association of Condominiums, representing the new owners' interests.

There are also a number of national associations representing municipal interests and views with regard to national housing policy and implementation.

The Citizens Rights Spokesman, appointed by Parliament, has an advisory function for the Government. Anyone has the right to turn to the Spokesman and present his or her point of view.

### *The banking system*

The Polish banking system is undergoing major structural change. The key elements of this process are a concentration and consolidation of the major banks, the absorption of small banks by large financial institutions, and the privatization of State banks, as well as the opening-up of the market to foreign banks, which are gradually expanding their activity in Poland. The role of foreign banks in the Polish banking system is at present relatively insignificant, but their share of the domestic market is growing rapidly. These banks are especially active in the corporate sector (servicing mainly multinational firms), in financing and settling foreign payments, and financing major investment projects. The majority of foreign banks operate with the mediation of affiliated branches, i.e. banks which are joint stock companies with registered offices in Poland. Some choose a more rarely sanctioned form of trading: branches which form an integral part of their parent company. A number of leading international banks are waiting to obtain a licence. Their prospects look bright, especially given Poland's commitment to the European Union to grant

European banks uninhibited access to its domestic market beginning in 1997.

The National Bank of Poland provides a framework for the General Banking Supervision Inspectorate, which, by systematically monitoring the overall activity of the domestic banking sector, pays particular attention to its compliance with the present banking laws and to the security of savings.

### *The building and construction industry*

The share of the private sector in the national economy is growing rapidly. Data from the Central Bureau for Statistics indicate that, in 1996, over 88 per cent of total construction output was produced by the private sector, whereas it employed 82 per cent of the construction sector's total workforce. The share of private firms in total housing property and investments, however, is lower and amounts to about 35 per cent.

In 1996, about 146,532 construction firms employed about 645,332 people; only 3 per cent of them employed more than 20 workers. Construction firms with up to 50 employees constituted about 98.6 per cent, medium-sized firms (50 to 200 people) comprised only 1 per cent; whereas 0.4 per cent of all firms had more than 200 employees.

Recently, the number of State firms has dwindled, whereas the private sector experienced growth. Table 19 indicates the number of construction firms at the end of 1996.

TABLE 18  
Share of private sector in construction output and employment

Share of private sector in:	1990	1991	1992	1993	1994	1995	1996
Construction output	33.8%	37.5%	78.7%	84.5%	86.5%	87.9%	88.0%
Employment in construction	36.3%	51.1%	70.8%	71.1%	76.8%	81.5%	82.0%

Source: Data supplied by the Housing Research Institute.

TABLE 19

### Composition of the building sector by type of ownership, 1996

Companies, by type of ownership	Number	Percentage of total
Non-private companies (State, municipal)	830	2.5
Private companies	30 947	94.7
Cooperatives	913	2.8
Total	32 690	100

Source: W. Dominiak, *Macro-Economic Conditions of Housing Sector Development in Poland* (1997).

The housing construction sector has a leading position in the privatization process. The number of State construction enterprises being privatized increased from 308 at the end of 1991 to 805 at the end of 1995. Table 20 gives an overview of the number of privatized

firms. The data in table 20 relate only to legal entities, excluding natural persons, e.g. self-employed craftsmen. There are more than 100,000 such small businesses, usually with one or two workers.

TABLE 20  
Privatization of State construction firms  
(Total cumulative data)

Type of privatization	By the end of		
	1994	1995	1996
Capital investment privatization (number of firms)	90	110	122
Privatization through liquidation (number of firms)	473	519	550
Total number of privatized firms	563	629	672

Source: W. Dominiak, *Macro-Economic Conditions of Housing Sector Development in Poland* (1997).

*Legal and economic consulting*

The transformation of Poland's legal system, though already advanced in encouraging foreign investment, is still not complete. There is little comprehensive professional legal and economic consultation services on:

- Investment opportunities, analysis and appraisal;
- Tax and legal issues;
- Financial and legal guidance for new businesses.

Some well-known international business, legal, and consulting companies have set up in Poland, particularly in the Warsaw area. For private-sector development in the housing sector, there is a need for a much wider availability of these advisory and consulting services throughout the country.

*Consultation services on architecture, design and construction*

The transformation of the political system after 1990 as well as the economic collapse in the building and

construction industry have influenced the market for consultation services on architecture, design and construction. Many designers and other specialists have left the previously large consultancy firms to establish small, private offices. The majority of these employ one to five people. Most big consultancy firms have disappeared, and those that survive have been privatized and have gone through organizational and personnel changes. There is now keen competition in the market for such consultancies.

Choosing consultants for housing development, both in the public and in the private sector, requires careful consideration. In particular foreign developers and investors in the Polish housing sector need to have a clear understanding of Polish design and construction standards, approval procedures, etc. All construction projects have to be signed by Polish consultants before formal approval.

During the last few years Polish consultancy firms in search of clients have started to widen their offers by also working as project developers. There is, however, some concern that such firms are not financially secure enough to cover the risks of development and possibilities of cost increases during the planning and construction process. This could be a niche for foreign joint ventures.

## ANNEX

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