Lux, M., Kährik, A. and Sunega, P. 2012. "Housing Restitution and Privatization—Aids and Obstacles to the Formation of Private Rental Tenure in Transition Countries." *International Journal of Housing Policy,* 12 (2): 137–158.
Lux, M. and Mikeszová, M. 2012. "Property Restitution and Private Rental Housing in Transition: Case of the Czech Republic." *Housing Studies* 27 (1): 77–96.
Mandič, S. 2000. "Trends in Central East European Rented Sectors." *Journal of Housing and the Built Environment* 15 (3): 217–31.
Struyk, R., ed. 1996. *Economic Restructuring of the Former Soviet Bloc.* Washington, DC: Urban Institute Press.
Tepuš, M. 2005. *Modeli stambenog financiranja (Models of Housing Finance).* Zagreb: Albatros media.
Tsenkova, S. 2005. *Trends and Progress in Housing Reforms in South Eastern Europe.* Paris: Council of Europe Development Bank.
Uchman, R. and Adamski, J. 2003. "How to Meet Market Rules and Social Goals for Housing?" *Housing Policy: An End or a New Beginning?* Budapest: OSI/LGI.
UNECE. 2005. *Housing Finance Systems for Countries in Transition, Principles and Examples.* New York and Geneva: United Nations. http://www.unece.org/fileadmin/DAM/hlm/prgm/hmm/hsg_finance/publications/housing.finance.system.pdf accessed January 15, 2011).
Walko, Z. 2008. "Housing Loan Developments in the Central and Eastern European EU Member States." *Focus on European Economic Integration 2/08.*
Whitehead, C. 2003. "Financing Social Housing in Europe." *Housing Finance International,* June 2003: 3–8.
World Bank. 2006. *Poland Housing Finance Policy Note.* Washington, DC: World Bank.
Zapletalova, J., Antalikova, M., and Smatanova, E. 2003. "The Role of Self-Government in Housing Development in Slovakia." *Housing Policy: An End or a New Beginning?* Budapest: LGI Books, Open Society Institute.
Zawislak, Marek. 2003. "Expanding 'True Social' Sector in Poland." Presented at the UNECE Workshop on Social Housing, Prague, May 19–20.

4 Rent Regulation and Housing Allowances

Martin Lux and Alexandr Puzanov

INTRODUCTION

The state interventions during socialism created a segment of mass public (semipublic) rental housing, where rents and utility prices were by regulation kept at extremely low levels. Price regulations made it possible to suppress the wages of the economically active population and thus temporarily maintain the competitiveness of the socialist economies. Tenants who were allotted flats by the state obtained unlimited occupancy rights in the form of a so-called 'deed' to the flat—later called quasi-homeownership (Lux 2009; Hegedüs and Tosics 1998).

After 1990, the new democratic governments wanted to reintroduce private property and establish a standard market economy: there was a plan to abolish the flat ('first-generation') rent regulation regime and replace it by a new market-friendly system. Instead, massive giveaway transfer of ownership rights to sitting tenants decreased public housing within a few years to a residual and marginal share of the housing stock. Where this unprecedented banquet did not take place, the socialist type of rent regulation was preserved for another decade. New means-tested housing allowances in post-socialist states played a minor role and never became real demand-side housing policy tools. Even in countries that did not apply right-to-buy policy and restituted part of housing stock to previous owners or their descendants, the opportunity to establish a sustainable rental housing policy was wasted in the early 1990s by the slow pace of rent deregulation.[1]

The soft policy 'cushion' (preserving the status quo and protecting sitting tenants) logically could not benefit everyone and could not exist forever. State protections basically applied only to sitting public tenants or tenants in restituted housing, that is, all running tenancies. For new tenancies (new rental contracts) in the private sector the governments usually did not set any rent caps or formulate specific rules giving the new tenants effective protection. Owing to a substantial decrease in the stock of public housing, the majority of new households were forced to seek housing in the private sector. This meant that they had to find their housing under market conditions: paying a

market rent and enjoying much weaker tenure protection. Especially in countries where right-to-buy policy had not been applied (Poland, Czech Republic) rental housing became divided into two segments: the 'privileged' and 'nonprivileged' (Lux 2003). Rent regulation guaranteed low rent for many high-income sitting tenants ('privileged segment'), whereas many households in need remained cut off from the possibility of getting low-rent housing and tenure security ('nonprivileged segment').

There is at least one policy implication of the inconsistent rental policy, that is, combining low rents for 'old tenancies' with high rents for 'new tenancies'. This implication is that private rental housing, a thoroughly new institution established after the change of regime, has gradually come to be regarded as a temporary and residual form of housing. Private rental housing became branded as an insecure and expensive form of tenure, where landlords make no effort to have good relations with their tenants, and it is characterized by conflicts and tensions. As a result, most citizens have sought to avoid the private rental sector. Public opinion has turned even more towards owner-occupation in all post-socialist states as rental housing as a whole was gradually becoming stigmatized.

In the countries where restitution of housing was not the approach taken all or most private landlords are former sitting tenants who benefited from giveaway privatization and found themselves at a certain stage in their family cycle with extra housing. As a result, some other features of private rental housing in post-socialist states are the 'nonprofessional' landlords, the prevalence of short-term leases, weak protection of both parties to the agreement, and the frequent use of informal leases as 'nonprofessional' landlords try to avoid taxation.

THE SCOPE AND FORMS OF RENT CONTROL IN POST-SOCIALIST STATES

Although it is very difficult to make any generalization, there are basically two forms of rent control in western countries. The first is exercised through social housing; the second regulates the private rental sector.

Even within the territory of one country we find different modes of rent setting for social housing due to the specific local conditions and changing subsidy rules in time. However, we can distinguish two basic forms of social rents: nonprofit cost rent, that is, rent covering all the capital and operational costs of social landlords after deducting public capital and/or revenue subsidies (e.g., in Austria, Netherlands, Sweden), and income-related rent, that is, rent computed as a percentage of income of eligible household (e.g., in Portugal, Ireland).

After the Second World War there were few differences between rent control for social and private rental housing. However, since the 1960s most western countries have reformed rent regulation of the private segment of

rental housing. These reforms have essentially involved transforming the rigid postwar system of 'first-generation' rent regulation into the 'second-generation' system of rent regulation. What is the basic difference? Lind (2001) claims that the 'first-generation' rent regulation regime has the following three characteristics:

1. Nominal rent freezes.
2. A nominal rent trend leads to a decrease in real rent.
3. A nominal rent trend leads to a decrease in real rent or leaves nominal rent well below the level of market rent.

"Second-generation rent control is any regulation of the rental market that does not fulfil definition above. There is no nominal rent freeze, rents do not usually fall in real terms and in the long run there might be no significant difference between actual rents and market rents" (Lind 2001, 43).

In the western countries of the EU, an enormous variety of approaches of 'second-generation' rent control in private rental sector were used (Lind 2001; Haffner, Elsinga, and Hoekstra 2008; Donner 2000). The 'extreme liberal systems' of second-generation rent regulation essentially set no direct limits on the level of initial rent and subsequent rent reviews (e.g., in the UK, Ireland, *de facto* Belgium and Finland). 'Moderate systems' limit rent regulation exclusively to running leases, whereas for newly signed leases rents can be set freely (e.g., in Germany, Switzerland and Spain). In 'stricter systems' not just the rents for running leases, but also a substantial portion of newly signed leases are regulated (e.g., in the Netherlands and France). Finally, in the 'strictest systems' rents are regulated for all running and newly signed leases (e.g., in Sweden and Denmark).

Rent reviews for running leases are constrained by a maximum rent level according to the dwelling's 'quality' in the Netherlands, by a maximum rent level agreed between the municipalities and tenant representatives in Sweden, by a referential rent index in France, by the Consumer Price Index in Spain and Belgium, by a maximum 'commensurate' level of profit in Switzerland, or by the level of local reference rents in Germany. Such constraints are sometimes accompanied by the condition that shock rent hikes are not allowed (e.g, in Germany, rent cannot be increased by more than 20 percent over the course of three subsequent years).

A dual approach taken by the governments to rents in social and private sectors, observed in western European countries since the 1960s, only gradually entered the housing policy discourse in post-socialist states. Housing was supposed to offset other reform measures; it was a way to sustain political support for economic transformation. All the post-socialist governments wanted to reconfirm quasi-homeownership entitlement of sitting tenants, so the social meaning of rent regulation in post-socialist countries was more like that of the postwar era than of the 1960s onwards in western countries.

The most common hybrid introduced into the post-socialist states during the early 1990s was the complete liberalization of rents for new private contracts (new private tenancies), combined with the preservation of a very conservative type of rent regulation and socialist tenant protection for all running tenancies—including tenancies in restituted private housing if restitution had taken place in the country. This form of 'first-generation' rent control has sometimes also been extended to new tenancies in public housing (Russia, Romania).

In the early 1990s further rent reform was conditional upon the introduction of a right-to-buy policy, that is, rent deregulation was passed only if sitting tenants were also given the right to 'buy' their occupied housing and thus a chance to avoid rent increases. Surprisingly, the housing allowance was not viewed as an adequate substitute. Moreover, even if right-to-buy policies were introduced, the deregulation of rents did not necessarily mean that the rents increased to close-to-market levels. Rent deregulation in many such cases was simply a transfer of the power to regulate public housing rents from the central to the local level, but public rents remained low. Therefore, like giveaway public housing privatization, rent regulation served originally as a general tool to maintain the quasi-homeownership status of rental housing rather than being a housing policy tool to help low-income households pay affordable rent.

A COMPARISON OF RENT CONTROL REGIMES IN POST-SOCIALIST STATES

Table 4.1 shows the features of rent control in post-socialist states. First, it shows the share of rental housing out of the total housing stock and its structure in selected post-socialist states. The countries with the highest share of rental housing and, simultaneously, the highest share of public rental housing are the Czech Republic, Poland, and Russia (Bosnia and Herzegovina and Estonia have a relatively high share of rental housing but it is mainly comprised of for-profit private rental housing). Second, Table 4.1 shows the scope of rent control in each state and uses a typology of the main forms of rent control to demonstrate which form is the core approach applied in each particular country.[2]

We understand rent control as a *central (state) policy that restricts the level of rent charged by public and/or private landlords*—either by means of rent setting (tariffs), a rent ceiling, or a cap on rent increases. We also make a distinction between direct and indirect forms of rent control. Direct rent control directly sets the tariffs or caps. An indirect rent control regime sets less constraining rules on rent setting; the landlords retain considerable freedom in actual pricing. Because different contexts exist, there can be no single and universal hierarchy of forms. However, rent setting is generally regarded to be the most constraining form of direct rent control; the rent ceiling (maximum rent) is less constraining, and the capping of rent increases for running leases is even less constraining.

In four countries the rents for old tenancies in *restituted (private rental) housing* are still regulated: Czech Republic, Croatia, Slovakia, and Poland. However, new tenancies in private rental housing are exempt from any rent control regime in almost all the selected transition states, with the sole exception of Poland; the regulations do not impose any cap on later rent hikes, any limits on initial rent levels, or any regulation on the term of the contract and its renewal. In most states (Bosnia and Herzegovina, Croatia, Poland, Romania, Russia, Serbia, Ukraine) the central rent control applies to both old and new tenancies in *public housing*; in three countries (Czech Republic, Slovakia, Slovenia) rent control is limited to just old tenancies and again new tenancies in public housing are exempt. The systems that extend rent regulation to new tenancies in public housing often use public housing as social housing (e.g., in Bosnia and Herzegovina, Serbia, Romania); in the second group of countries this may not always be the case (e.g., in the Czech Republic).

It is clear from Table 4.1 that the highest share of housing stock under a rent control regime is found in Poland (18 percent), Russia (16 percent), and the Czech Republic (11 percent); at the opposite end, the lowest share of housing stock under a rent control regime is, logically, in the super-homeownership states, such as Bosnia and Herzegovina (2 percent), Romania (2 percent), Slovenia (3 percent), Serbia (3 percent), Slovakia (3 percent), and Croatia (5 percent).

In 2008–2009 there were two countries with no central rent control regime, either for old tenancies or for new contracts (and not for public or for private housing)—Estonia and Hungary. In these two countries, landlords, including public ones, are free to increase and set rents for all tenancies as they wish. In both rent control was abolished in the early 1990s in connection with mass public housing privatization. In Estonia, where compared to Hungary a substantial stock of housing has been restituted to previous owners, legislation originally only shifted power to regulate both public and private rents for running tenancies to the municipalities. However, since 2004 all rents in the private sector were deregulated by a decision of the Supreme Court. In fact, public rents in both Estonia and Hungary have remained low—in Estonia they reflect the cost principles, and in Hungary they reflect rather the various local political interests.

In Russia, rent in public housing (whether running or new tenancies) is set by normative acts issued by local governments, which must be in accordance with the indirect central regulation of municipal rent setting. Central regulations deal with the binding components of rent (two components: *pure rent* and payment for repair and maintenance); the cost principle of public rent setting (*pure rent* should cover the reconstruction costs of a house/flat, and the second component, payment for repair and

maintenance, should cover the costs of housing-related services); and the specific status of low-income households (they do not pay the *pure rent* component). Another specific indirect form of rent control comes from the fact that the utility service fees (affecting 70–80 percent of monthly housing related payments) and annual caps on tariff increases are set by the regional authorities. Although both of these practices rank among the less constraining forms of rent control, and although they are limited only to public housing, their combined use makes Russia a country with one of the most conservative ('first-generation') rent control regimes in the region. The situation in Ukraine is very similar to that in Russia. However, there public tenants pay only repair and maintenance costs and there is no 'pure rent' component of rent payments. Consequently, the level of public rents remains very low in both countries.

At the opposite end of the pole, since 2005 the rent control regime in Poland has acquired the character of a 'second-generation' rent control regime. Since 2005, the only central restrictions on municipalities and private landlords relate to rent increases, and caps are not set as central tariffs but instead as the 'justifiable' growth level (e.g., the increase in rent can be justified by the refurbishment of the flat, low capital profit of the landlord, higher costs to repay a mortgage loan for the landlord due to inflation, etc.). In the case of a dispute justifiability is decided by the court. Recently, rents increased to a level closer to market value and the system of rent regulation is now much like the regime in Switzerland. Despite the fact that it applies to all tenancies, Polish rent control is 'market-friendly'.

Until 2005, the Polish regime was one of the most conservative rent control systems in the region—rents for all running tenancies (both public and private) were capped at 3 percent of the dwelling replacement value (reconstruction costs). However, in the well-known case of *Hutten-Czapska versus Poland*, the Grand Chamber of the European Court of Human Rights in Strasbourg ruled strongly in favor of private landlords in Poland: "the decision disapproves strong rent control, proposes government restitutionary compensation for landlords and requires an effective eviction law, leaving the responsibility for the tenants affected by this to the state" (Ball 2010, 1). Poland was thus forced to make a substantial change to the rent control regime by a decision of the European Court for Human Rights.

Next to Poland and Russia, the last country with a relatively large rent-controlled housing stock is the Czech Republic (11 percent of the housing stock, including old tenancies in the private rental sector). Deregulation of controlled rents started in 1992 and the maximum regulated rent was stipulated in relevant government decrees: since 1999, when regulated rents were still several times lower than market rents, the maximum regulated rent stopped rising in real terms and since 2002 also in nominal terms. The process of rent deregulation did not restart until 2007, when a special act on rent deregulation came into force. Like in Poland, until 2007 and despite several decisions of the Czech Constitutional Court deeming rent

regulation unconstitutional, the system in the Czech Republic was one of the most conservative regimes in the region—rents for running tenancies remained practically frozen from 1999.

The main motive for restarting the deregulation of rents in 2007 was a decision of the Strasbourg court in the *Hutten-Czapska versus Poland* case. The Czech government became concerned about losing a case with private landlords like that in Poland, which could lead to the government having to pay large financial compensation to landlords. At that time thousands of Czech private landlords were already preparing a joint action against the Czech state and had submitted it to the Strasbourg court. Rapid rent deregulation started in 2007. The act established an intermediary period during which the maximum rents for running tenancies were set to increase to 5 percent of the market value of the property (the average market value is set per m^2 for each municipality based on transfer tax data collected by tax offices). The intermediary period should have ended in 2010, but it was extended to 2012 in large urban centers in response to the economic crisis. Rents should therefore soon be deregulated (the state will withdraw from this field), and a 'second-generation' rent control regime will be established. This regime will set only a cap on rent increases to the level of 'locally relevant rent' (i.e., basically the free market rent typically paid for the same kind of dwelling in the same location); any disputes over the locally relevant rent is settled in court. The system will therefore be similar to the German system of rent control.

In other selected post-socialist states rent control is limited to public housing, which is, firstly, marginal in scale and, secondly, often defined as social housing. The most conservative form—flat-rate tariffs differentiated somewhat by specific coefficients—is used in Serbia (3 percent of the housing stock under rent control regime), Slovakia (3 percent of the housing stock), and Romania (2 percent of the housing stock). In Romania, rents are set according to a government decree, in which basic cost tariffs are differentiated by specific coefficients that reflect the category of flat and its location. The tariffs are amended each year at the end of January and adjusted in relation to the inflation rate in the previous year. However, tenants eligible for social housing may in fact pay an even lower rent than tariffs: the maximum rent payable by tenants in social housing is 10 percent of the gross monthly income of a household. The difference between that amount and the tariff rent is subsidized by the municipality. In Slovakia the tariffs are announced in government decrees and based on the Price Act.

In the remaining post-socialist states the rents in public housing are capped by maximum rent levels. These maximum rents are calculated as a percentage of estimated (assessed) dwelling value—2.5 percent of the dwelling value in Bosnia and Herzegovina (2 percent of the housing stock under a rent control regime) or 4.68 percent of the dwelling value in Slovenia (3 percent of the housing stock)—or they are computed as a percentage of the replacement costs—0.54 percent of replacement (construction) costs in Croatia (5 percent of the housing stock).

Table 4.1 Main Parameters of Rent Control in Selected Post-Socialist States, 2010

	BA	CZ	HR	EE	HU	PL	RO	RU	SK	SI	RS	UA
Rental housing as % of housing stock (2008/2009)												
- public housing	2.0	11.0	2.5	4.0	3.7	8.5	2.0	15.5	2.8	1.8	3.4	4.7
- private nonprofit housing*	0.1	-	-	-	-	2.0	-	3.0	-	2.0	0.0	-
- private for-profit housing	20.0	14.0	8.4	13.0	4.0	9.0	6.7	8.0	1.5	1.2	7.3	n.a.
Total	22.0	24.0	10.9	17.0	7.7	19.5	8.7	23.7	4.3	5.0	10.7	n.a.
Form of rent control												
Direct 1: Central rent setting							■		■	■	■	
Direct 2: Central caps on rents (maximum rents)	■	■	■				■			■		
Direct 3: Central regulation of rent increase						■		■				■
Indirect: Central rules on public rent setting					■			■				■
No rent control				■								
New contracts in existing public housing under rent control	YES	NO	YES	NO	NO	YES	YES	YES	NO	NO	YES	YES
Est. % of rental housing under rent control out of total in given segment												
- % public housing	100	70	100	-	-	100	100	100	100	80	100	100
- % private nonprofit housing	100	-	-	-	-	100	-	0	-	80	-	-
- % private for-profit housing	0	25	20	-	-	80	0	0	7	0	0	0
% of total housing stock	2	11	5	-	-	18	2	16	3	3	3	5

*Does not include hybrid forms, such as co-op housing, only pure rental housing provided by private nonprofit organizations (housing associations, nonprofit enterprises).
Notes: BA: Bosnia and Herzegovina; CZ: Czech Republic; HR – Croatia; EE – Estonia; HU – Hungary; PL – Poland; RO – Romania; RU – Russia; SK – Slovakia; SI – Slovenia; RS – Serbia; UA – Ukraine.

The amount of new public or nonprofit housing built after 1990 is marginal. New public or nonprofit housing often had the character of social housing and was intended for a specific target population; consequently, here rents are again controlled by the state. However, rent control in new public or nonprofit housing reflects the level of state subsidies and/or the specific conditions of subsidy programs and it is set as a cost rent. The cost of new construction, however, may be high, so rents in any newly built public or nonprofit housing are often higher than in existing public housing (with the exception of Romania or Russia, where the same rent regulation principles apply to both existing and newly built public housing).

An example of more extensive new social housing construction in the region is the TBS nonprofit housing scheme in Poland, where the maximum rent is centrally regulated (the relevant legislation on this was passed in 1995) at 4 percent of the dwelling's replacement value (i.e., the average construction costs annually declared by regional councils). The same applies, for example, to Slovakia: the maximum rent in new public housing built after 2001 is 5 percent of the acquisition cost. Other examples of specific *ad hoc* rent regulation schemes applied to new public or nonprofit housing include flats built in the Czech Republic under ministry programs directed at 'supporting housing' and 'social housing', flats built in Hungary under the Széchenyi government program, or public flats built in Serbia for refugees from the ex-Yugoslav republics.

As mentioned in the preceding, the pace of 'legal' rent deregulation is not necessarily connected with the pace of 'price' deregulation. The central regulation of rents was quickly dissolved only in those countries that applied a generous right-to-buy policy (Estonia, Russia, Ukraine, Hungary), whereas it remained strong for a long time in countries where this policy was rejected (Czech Republic, Poland). There are several exceptions to this rule—Romania, Slovakia, and all post-Yugoslav republics—where rents for public housing continued to be regulated by the central government. However, real price deregulation (rent increase) and thus the real shift to a 'second-generation' rent control regime for running tenancies first appeared, paradoxically, in the countries that avoided right-to-buy policies: the Czech Republic and Poland. However, the main reason is not the absence of a right-to-buy policy but rather the restitution of the housing stock. In the Czech Republic, Poland, and also in Estonia, the restituents were powerful enough to lobby for a change in the rent control regime and they succeeded by taking legal action against the state.

HOUSING ALLOWANCES IN SELECTED POST-SOCIALIST STATES

A means-tested housing allowance is one of the most important instruments of housing and welfare policy in developed European states, especially in

the field of rental housing. It complements social housing and is part of the social security system of each country. With respect to housing policy, this is a demand-oriented instrument. Indirectly, it may also affect the supply. Increasing the disposable income of the population by providing an allowance stimulates housing demand; the reaction to an increase in demand should be a corresponding increase in the supply. The introduction of housing allowances therefore "reflected housing policy rather than social security concerns" (Kemp 1997, 16).

Housing allowances were introduced in the western countries from the middle of the 1960s (Germany 1965) onwards, but especially during the 1970s (Great Britain 1972, France 1977) and 1980s. The basic principle of housing allowances is to provide eligible households from the rental or owner-occupied housing sectors with a benefit equal to the difference between the actual and the normatively set level of household housing-cost burden, defined as the share of housing expenditures out of total household income. When calculating the housing allowance, three factors in particular are usually taken into account: household income, housing expenditures, and household size (an international comparison of different models in western countries is found, for example, in Kemp 2007).

Table 4.2 presents an international comparison of several aspects of housing allowances in sample post-socialist states. There is no housing allowance in Serbia or Bosnia and Herzegovina. In Romania, only a 'heating allowance' exists, which provides compensation for unpredicted increases in the price of fuels used for central heating systems and is paid directly to the local thermal energy providers. In several other post-socialist states the estimated share of households receiving a housing allowance is very low: less than 1 percent in Slovenia; 2 percent in Estonia, the Czech Republic, and Croatia; 3 percent in Poland; and 5 percent in Slovakia and Ukraine. The housing allowance is more widely received only in Russia (11 percent of households) and Hungary (8.5 percent of households). The situation in Hungary is relatively new, and the housing allowance has played this more significant role since 2004.

In many countries the first housing allowance scheme was established relatively soon after the regime change, but generally it underwent various amendments in later years, especially after 2000. Usually the eligible households are also the recipients of the housing allowance; only in Slovenia and Poland are the allowances paid directly to landlords (initially this was also the case in Russia). In all countries, except Slovenia, the allowances are paid both to tenants and homeowners; they are therefore tenure neutral (in Croatia since 2001).

The source of allowance financing varies: in approximately one-half of sample countries the allowances are paid entirely or mainly out of the state budget (Czech Republic, Estonia, Ukraine, Slovakia, Hungary), in one country they are paid mainly out of the regional budgets (Russia), and in the remaining countries they are financed exclusively or mainly out of the municipal budgets (Poland, Slovenia, Croatia). In two of the countries in which most expenditures relating to housing allowances are paid by the municipalities some form of cofinancing from other sources exists: in Slovenia the allowances for private market tenants are cofinanced by the state budget and in Croatia (for the gas allowance) by the regional budgets. Allowances are also cofinanced in Hungary—about 10 percent of the total amount comes from the municipal budgets; in Russia part of the total housing allowance due in less-developed regions is cofinanced out of the federal state budget.

This situation is not constant in time. As Table 4.2 shows, with the exception of Poland, most post-socialist states have seen a strengthening of centralization (bottom-up change) in the financing and regulation of housing allowances. In some countries at least part of the total housing allowance due has over time been overtaken from the municipalities by the regions (Russia, Croatia) or the state (Slovenia, Hungary). In Hungary there was a radical change in financing and competence in 2004, when the state almost fully took over the role that had been played by the municipalities to that time. And in Russia, also in 2004, the financing responsibility was fully transferred from the municipalities to the regional level. The opposite trend has been observed only in Poland, where in the 1990s the municipalities received about half of the total allowance due from the state budget, but now they bear all the costs themselves; after the 2004 tax income distribution reform they began receiving a higher share of collected tax income, but became fully responsible for paying the housing allowance.

If there is one feature common to the housing allowances schemes in all the selected post-socialist countries it is their marginal significance. Their role is limited to income maintenance for the lowest-income families; they are not an effective demand-side housing policy instrument. The restrictive conditions attached to the housing allowance, such as the explicit income ceilings (Estonia, Poland, Slovenia, Croatia, Hungary) that limit household eligibility, demonstrate this. The housing allowance is often governed by social security legislation (Estonia, Croatia, Hungary, Ukraine, Czech Republic, Slovakia) rather than specific housing legislation (Russia, Slovenia, Poland); in Estonia it is part of the subsistence benefit and in Slovakia part of assistance to people in material need.

Consequently, the housing allowance is more of an auxiliary tool that helps low-income families cover the costs of increasing utility prices (such as prices for energy, gas, heating, water supply) than it is a substitute for rent regulation or public housing privatization (Hegedüs and Teller 2005, 189). This fact explains why housing allowances are usually (with the sole exception of Slovenia) tenure neutral, that is, why they are allocated not only to tenants but also to 'poor' homeowners. This situation has changed little since 2000.

Another shared feature is the paradoxical fact that almost all housing allowance models in sample countries are geared towards already protected

tenants or homeowners (except in Croatia): 'privileged' tenants, 'social' tenants paying regulated rent, or homeowners who got their housing cheaply through giveaway privatization. Although official rules introduced more recently usually do not distinguish between different types of tenants or homeowners (for example, the explicit exclusion of 'unprivileged' tenants was ruled out in Russia in 2002 and in Slovenia in 2008), restrictive conditions, such as income and housing cost ceilings, are clear signs that the allowance targets mainly 'old' and protected tenants and homeowners.

In the private sector, tenants that pay market rents (and, respectively, owners that are repaying mortgage loans) are still, although recently more implicitly, excluded from receiving effective assistance in the form of the housing allowance in the overwhelming majority of sample countries. Their incomes are generally higher than income ceilings (otherwise they could not pay the housing market price) and market rents are often well above the cost ceilings or tariffs applied in the housing allowance formulae. Even though the rent-to-income ratio of 'unprivileged' tenants is often substantially higher than the normative rate of burden set in the allowance formulae, they receive no allowance or they receive only a type of specific allowance (Slovenia).

Moreover, most existing housing allowance models do not take into account real housing costs but instead use notional cost tariffs (Hungary, Slovenia, Ukraine, Russia). In Slovakia, the amount of the housing allowance is a simple one-figure tariff, and notional costs are set at a low level, reflecting the situation in the 'privileged' sector; here the exclusion of households that pay market housing prices is the most apparent.[1] In addition, these simple tariffs barely reflect regional differences in market rents and prices, and this again confirms the role of the housing allowance as a social benefit that covers a part of maintenance fees and utility costs (utility costs do not vary regionally too much).[2] In Estonia, however, real housing costs are taken into account to determine the amount of the housing allowance, but they are limited by ceilings (maximum values); the ceilings are set by the municipalities. In Poland real housing costs are included in the calculation of an allowance, with only indirectly set ceilings (comparable costs in municipal housing). The Czech Republic now has the least constraining allowance formula: since 2007 real housing costs are included and, thanks to rent deregulation, the ceilings are set at levels close to rents/costs in the private market rental sector.

The normative rate of burden of a housing allowance is defined as the share of household income that a household is expected to spend on housing. In other words, it determines the minimum financial contributions of a household to its housing expenditures not directly (in absolute values) but indirectly, in the form of a percentage of the total household income. The standard normative rate of burden varies among post-socialist countries, ranging from 15 percent (Ukraine) and 18–22 percent (Russia), to 30 percent (Hungary and Estonia) and 30–35 percent (Czech Republic). It can

Table 3.2 A Comparison of Selected CEE Housing Allowance Models, 2010

	Housing allowance is a special benefit designed to cover housing costs	Housing allowance is governed by housing legislation (HL) or social security legislation (SSL)	All tenures are eligible for the housing allowance	Explicit or implicit income ceilings for housing allowance eligibility	Who provides funds for housing allowance payments?	Trend in housing allowance financing after its establishment	The share of households receiving housing allowance out of total number of households (2008 or 2009, in %)	The main recipient of housing allowance
CZ	Yes	SSL	Yes	Implicit	State	No change	2.5	Household
HR	Yes	SSL	Yes	Explicit	Municipalities, special heating allowance from regions	Moderate centralization	2.4	Household
EE	No (part of subsistence benefit)	SSL	Yes	Explicit	State	No change	2	Household
HU	Yes	SSL	Yes	Explicit	State and small part (about 10%) municipalities	Strong centralization	8.5	Household
PL	Yes	HL	Yes	Explicit	Recently exclusively municipalities	Strong centralization	3	Landlord
RU	Yes	HL	Yes	Implicit	Regions with differentiated state subsidies to weak regions	Strong centralization	10.6	Household
SK	No (part of social assistance in material need)	SSL	Yes	Implicit	State	No change	4.9	Citizen in material need (eligibility is jointly assessed with other family members
SI	Yes	HL	No, only tenants	Explicit	Municipalities with small state subsidies for special allowances to private market tenants	Moderate centralization	0.8	Landlord
UA	Yes	HL	Yes	Implicit	State	No change	5	Household

Note: CZ: Czech Republic; HR – Croatia; EE – Estonia; HU – Hungary; PL – Poland; RU – Russia; SK – Slovakia; SI – Slovenia; UA – Ukraine.

vary according to the composition and size of the household (e.g., Czech Republic, Estonia) or household income (e.g., Poland).

The 'taper' shows the amount by which housing allowance decreases when the income of a household increases by one currency unit. In most of the sample countries, the taper was relatively gentle, but the models in Estonia, Hungary, Slovakia, and Russia were the exceptions. Their allowance models have a high taper, or there are specific thresholds after which the allowance is sharply reduced. This kind of situation can lead to a poverty or unemployment trap.

CONCLUSIONS

There are only a few countries in our sample of post-socialist states where the rent in some private housing units is regulated by the state. This pertains mainly to rent in restituted housing stock. Basically, new tenancies in the private rental sector are concluded freely on the market—often black market, because many landlords do not want to declare income from rent on their tax return. Conversely, public rents are usually subject to a specific regime of central rent control—either direct rent setting, rent capping, or rent increases. In countries where regulation is applied to both sitting and new public tenants, public housing tends generally to be viewed as social housing. In countries where new public tenancies are exempted from rent control this may not always be the case. There are three countries in our sample where rent control is imposed on more than 10 percent of the housing stock (Poland, Russia, Czech Republic); and there are two countries in our sample where central rent control has disappeared entirely (Estonia and Hungary).

In our analysis we discovered that the pace of 'legal' rent deregulation in the 1990s was closely connected with (or even dependent on) the introduction of a right-to-buy policy. The central regulation of rents was quickly eliminated or decentralized only in those countries that applied a generous right to buy policy (Estonia, Russia, Ukraine, Hungary), but it remained strong in those countries where this policy was rejected (Czech Republic, Poland). However, the real deregulation of prices (rent reform) and thus the real shift to a 'second-generation' rent control regime for running tenancies first occurred, paradoxically, in the countries that avoided right-to-buy policies: the Czech Republic and Poland. The main reason for this was the restitution of the housing stock and the fact that private restituents in these two countries successfully challenged the state regulation of rent in international court.

There are specific rent regulation schemes that are applied to rental housing built after 1990 and subsidized out of the public budget but generally this housing accounts for just a small part of the total housing stock, except in Poland, Slovakia, and the Czech Republic. In Poland this relates to dwellings built under nonprofit TBS schemes, and in the Czech Republic and Slovakia it involves municipal dwellings built under various government programs.

The decentralized housing allowance system of the early 1990s was later, except in Poland, transformed into a more central model of financing. Increased centralization of the financing and regulation of housing allowances has been typical across most post-socialist states in our sample (especially for Hungary and Russia in 2004).

The marginal significance of the housing allowance is a shared feature of the selected post-socialist countries. Although it is impossible to fully evaluate a housing allowance scheme without detailed knowledge of the given country's social security system (such as how it calculates the living minimum or subsistence benefits), the role of the housing allowance in selected post-socialist states is clearly limited to income support for the lowest-income families, rather than being an effective demand-side housing policy instrument. Its main purpose is not to enable rent (housing) reforms but rather to compensate lower-income households for increases in utility prices.

Another shared feature is that almost all housing allowance schemes are oriented towards tenants who already enjoy tenure protection and towards homeowners: 'privileged' tenants, 'social' tenants, and homeowners who got their own housing through giveaway privatization. Tenants that pay market rents in the private sector are still, explicitly or implicitly, excluded from obtaining effective help in the form of the housing allowance (except under the recent system introduced in the Czech Republic).

New tenancies in the private sector are not protected by rent control or by effective tenure security legislation. The market rents in the private rental housing are often several times higher than rents in public (nonprofit) housing, even in countries where rents in public housing are no longer centrally regulated (Hungary, Estonia). Young families often have little chance of obtaining public or social housing because the tenancy turner in such housing is low and there is relatively little public housing left since the giveaway housing privatization. Despite this fact, the housing allowance generally provides them with no effective help with their high housing costs.

There are at least two clear policy implications from rental housing segmentation. One is that such a policy will logically result in all citizens preferring (and even being forced) to become homeowners, because homeownership is then the only secure and accessible form of housing tenure. The second implication is that rental housing is becoming stigmatized as a residual and temporary form of housing: residual for people on low or unstable income and temporary for students and young singles. This situation will only strengthen the housing system's orientation towards owner-occupied housing in the future.

NOTES

1. Politicians deliberately chose housing as a policy 'cushion', which was intended to soften the blows of the more painful effects of economic transformation.
2. As stated earlier, rent regulation applies especially to old tenancies because new tenancies in private rental housing are exempt from any rent control

in all post-socialist states; in some states, however, new tenancies in public housing are subjected to rent control.

3. Notional housing expenditures are rarely applied in EU housing allowance models. Instead, the ceiling (maximum costs) is often used, whereas actual costs are taken into account in the calculation of the benefit. Above the level of the ceiling, a household must pay for all other expenditures with its own resources.
4. In Russia the standard notional costs set by the regions are differentiated by the municipalities themselves, but this differentiation does not take into account differences in free market rents, but rather differences in utility costs.

REFERENCES

Ball, J. 2010. "'Where Will European Property Law Go Next?' Tenancies and Property after *Hutten-Czapska* v *Poland* and *FEANTSA v Slovenia*." Paper presented at COBRA Conference, Paris, July 2–3.

Donner, C. 2000. *Housing Policies in the European Union*. Vienna: Christian Donner.

Haffner, M., Elsinga, M., and Hoekstra J. 2008. "Rent Regulation: The Balance between Private Landlords and Tenants in Six European Countries." *European Journal of Housing Policy* 8:217–33.

Hegedüs, J. and Teller, N. 2005. "Development of the Housing Allowance Programmes in Hungary in the Context of CEE Transitional Countries." *European Journal of Housing Policy* 5:187–209.

Hegedüs, J. and Tosics, I. 1998. "Rent Reform—Issues for Countries of Eastern Europe and the Newly Independent States." *Housing Studies* 13:657–58.

Kemp, P. 1997. *A Comparative Study of Housing Allowances*. London: Department of Social Security.

———, ed. 2007. *Housing Allowances in Comparative Perspective*. Bristol: Policy Press.

Lind, H. 2001. "Rent Regulation: A Conceptual and Comparative Analysis." *European Journal of Housing Policy* 1:41–57.

Lux, M., ed. 2003. *Housing Policy—An End or a New Beginning*. Budapest: LGI/OSI.

———. 2009. *Housing Policy and Housing Finance in the Czech Republic during Transition. An Example of Schism between the Still-Living Past and the Need of Reform*. Amsterdam: Delft University Press.

POLICY RESPONSES TO ROMA HOUSING EXCLUSION IN HUNGARY, ROMANIA, AND SERBIA

In various countries, local- and national-level programs have been aiming to solve the housing issues of segregated and disadvantaged Roma communities, and they have tried to tackle at least some aspects of housing exclusion. The interventions range from clearing legal titles; through infrastructure investment; to coordinated actions of income generation, education, community development, and housing development. The success, relevance, scope, and sustainability issues of each of the interventions are different, similar to the variety of regional differences and housing situations they address.

The evolution of housing interventions started with the NGO sector, prominently supported by international organizations, such as World Bank, UNDP, Soros Foundation, OSCE, and international charities. Some of these punctual programs were focusing on inhuman and unhealthy living conditions and forced evictions, but they could not tackle general housing exclusion patterns or mass reproduction of extreme poverty among excluded Roma groups.

In Hungary, in 2005 the national government launched a Roma Settlement Integration Program focusing on small to medium-size villages throughout the country. During its five years of operation, the program was extended and improved, finally reaching approximately forty communities with a funding of about 14.6 million U.S. dollars. The program design was based on combining interventions from various fields (training, social work, infrastructure investments), it was assisted by external mentoring, and in very few cases it implemented desegregation measures (Petrovacz et al. 2010).

Despite several challenges, the interventions have had tangible integration effects in most settlements. Where it did not, for example, in Szentgál, a small village close to Lake Balaton, it was more about the local consensus among the political elite and the Roma self-government. This consensus could not be changed, and it resulted in a fostered spatial isolation of the Roma. Generally there was a strong local resistance to spatially integrate the Roma and let them purchase or rent housing in the central parts of the villages. Also, the lack of creation of employment opportunities to sustain improved living conditions has been a major shortcoming of the program. In some other villages, where the local government was more supportive to (or at least not challenging) the targets of the program, the state-funded program could serve as a first step to include the Roma in village life. This was achieved by helping them move to the integrated parts and getting access to paid jobs, as it happened in Sirok, a touristic village in northeastern Hungary. Here, the municipality facilitated the process by making public employment options available for Roma, for example, delivering hot meals to the elderly in the village. It also forbore to claim rent for the use