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TENLAW: Tenancy Law and Housing Policy in Multi-level Europe

Intra-team Comparison Report for BULGARIA, HUNGARY, ROMANIA

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Intra-team Comparison on Bulgaria, Hungary, and Romania

Introduction

Despite some seemingly fundamental differences – the level of post-transition decentralization, the development level of the mortgage market, and even the origins of the legal system – the housing and tenancy outcomes in Bulgaria, Hungary and Romania are surprisingly similar. This cannot be explained with post-socialist path-dependent development alone, although it clearly plays an important role. During the socialist era, all three countries showed the main characteristics of the East-European Housing Model (EEHM), where the key goal of housing policy was to create the urban housing necessary to house newly arriving workers, attracted by intensive industrialization during the period. After 1989, among the challenges of the transitional recession and the overarching reforms, housing policy did not become a central issue in any of the three countries, and their drawbacks have not been addressed to date. Currently, all three can be characterized by a distorted tenure structure, an underdeveloped mortgage market compared to old EU member states, an overwhelming predominance of owner occupied housing, and residualized social and private rental sectors. Housing availability and affordability have been becoming increasingly problematic for growing shares of the populations, despite the continuously increasing vacant housing stock in all three countries due to negative demographic growth and massive outmigration. Although some small scale experimental programmes have been launched in all three to begin treating the housing problems of vulnerable groups, these remain modest and isolated.

The actual comparison of regulation in this chapter is rather brief, simply because the regulations themselves are brief or missing in these countries. If you look at tenancy related regulations in German speaking countries, the Benelux countries or Scandinavia, you will find detailed provisions to all aspects of tenancy, to the level of the treatment of the deposit (e.g. to be put on the tenant's name on a separate account). Tenancy related regulations in Bulgaria, Hungary and Romania are very brief, often revert back to the more general legal framework (Housing law, Contract law, even the Civil Code), and sometimes important provisions are simply missing. This analysis could only make up for this lack of regulatory information if we made a detailed comparison of the practice of residential renting. However, loose regulation and low income level (in an EU comparison) pushes most of residential renting into the shadow economy, where statistical data is usually missing, and even reliable expert assessment is difficult to make.

1. The current housing situation

1.1. General Features

1.1.1. Historical evolution of the national housing situation and housing policy (1945 to date)

A shared state socialist past between 1945 and 1989 makes the historic evolution as well as the current state of the housing systems of Bulgaria, Hungary and Romania relatively similar (at least in a wider European comparison). The housing regimes of the three South East European countries bore the characteristics of the East European Housing Model (EEHM): they were dominated by single-party political control over the housing sector, market mechanisms played a subordinate role, market competition was replaced by housing agencies (bureaucratic coordination), and housing services were under the control of the state (Hegedüs and Tosics, 1992; Clapham, 1995). Also, during the 1950s and 1960s the single ruling party in all three channelled all available financial and human resources into forced industrialisation, and thus reinforced the mass migration of rural population into the cities. Mass urban building was centrally financed to alleviate the post-war housing crisis (which was partly inherited from the interwar period), which was exacerbated by the intensive growth of urban population due to the intensive industrialisation process. In the informal sector, people built their own home (especially detached housing in suburban and rural areas), and informal sub-tenancy markets operated side-by-side with the state controlled housing sector (Hegedüs et al., 2014b).

All three housing systems were fundamentally centrally managed, dominated by state planning, distribution and finance, where a massive share of housing construction was financed by public sector banks. Central regulatory mechanisms (e.g. rent caps) were already present since World War I, but became vastly more restrictive after 1945, when the share of state owned housing grew steeply throughout Central and Eastern Europe (now part of the newly created 'Eastern bloc'). Hungary and Romania are very clear examples of this, where state owned affordable rentals took off in the 1950s, and reached around 50 percent of the urban housing stock by the late 1970s. (Hegedüs et al., 2014a; Bejan et al., 2014) In Bulgaria, a large share of the state funded construction resulted in nominally privately owned homes, although no free market operated, and the whole sector was under strict state control. Nearly a quarter of the urban housing stock of Bulgaria was in public ownership. (Elbers and Tsenkova, 2003) Moreover, a significant part of the housing stock – typically multi-unit buildings – was nationalised in all three countries, starting in 1945 in Romania, in 1948 in Bulgaria, and in 1952 in Hungary.

To provide a lot of new housing quickly and at a reduced cost, the construction of pre-fabricated housing was widespread throughout the region, and a varying ratio – between 20 and 40 percent – of the new buildings were constructed by state companies. However, the resulting dwellings did not exclusively become state owned: many of them were sold at centrally defined prices, and through centrally managed channel, to private owner occupiers. Around 20 percent of the apartments in Hungary, and 30 percent in both Bulgaria and Romania, are in system-built ("panel" or pre-fabricated) housing blocks, which were created as a response to the pressing housing shortage in the post-

war period. However, the creation of publicly owned housing did not start with public sector constructions.

Resources and manpower available for agricultural production was toned down heavily in most communist countries (not entirely unlike the way it lost its significance in the national production in Western countries), and industrial production swiftly gained prominence, partly triggered by forced industrialisation programmes in the earlier decades of communist rule, which led to a massive migration from rural and agricultural areas to the new industrial hubs in towns and cities. Despite the lack of official statistics in this regard, an informal private market functioned in all three countries to satisfy the high demand for urban housing, which could not be sufficiently fulfilled through official (state managed) allocation. On the one hand, a housing shortage was prevalent in all three countries throughout most of the communist era; and on the other, regulations typically did not permit the ownership of a second home, unless it is a holiday home and solely for leisure purposes. Owning and renting out a second home was therefore highly unlikely. Nonetheless, letting or sub-letting a part of one's apartment was fairly widespread. Authorities seem to have ignored this activity, despite the financial advantages stemming from private ownership, which clashed with the official state ideology. Socialist housing provision had its merits, but could not satisfy all needs, especially for a flexible rental market. Repressing the informal sublet market could have triggered social tensions the state would not have been able to solve, which is a likely explanation of why state authorities chose to look the other way. Very importantly, the tradition of an unregulated private rental market could be an explanatory factor of the current functioning of rental markets in Bulgaria, Hungary and Romania in the post-transition period: to this day, residential renting is loosely regulated in all three, which may partially be the outcome of a path dependent development route.

The post-1990 development of the three housing (and rental) markets was similar in some aspects and divergent in others. In all three, transition to multi-party democracy and market economy also meant a gradual contraction of economic redistribution and the slow replacement of the strong socialist safety net with much more moderate market correction mechanisms. It also brought about a (nearly full) withdrawal of the state from housing policy. With regard to housing policy, the collapse of the communist regime kick-started a number of processes in all three countries, particularly:

1. The **decentralisation** of housing policy and provision. Previously, a large segment of housing provision was through state owned rental housing with a public task. This responsibility was delegated to local authorities; but very importantly local authorities were not allocated sufficient funding to maintain a large rental stock fit for public task (social rental housing provision).
2. Massive **housing privatisation**, as part of an overarching market creation strategy, but also due to the decentralisation of social housing provision (delegated from the central states to local municipalities) without allocating adequate funding. The sale of previously state owned dwellings began in the 1980s, but became massive in the 1990s; sitting tenants could buy their dwellings at a heavily discounted price.

3. The gradual **deregulation of housing markets**, together with the **dissolution of limitations to property ownership**, allowed the free exchange of privately owned units at market prices, starting from the second half of the 1980s. Also, there was no restriction on the resale of newly (and cheaply) privatised apartments at a market price, so this was a very attractive option for tenants.
4. **Privatisation of the finance (banking) and construction sectors**. Before the transition, funding for construction was provided by a single, state owned commercial bank in all three countries, and large scale constructions were exclusively realized by state construction companies. They were replaced by private banking systems and construction companies in the 1990s, although at a slightly different pace in the different countries.
5. Huge **cuts in housing spending** from the state budget, which meant not only the end of state funded mass construction, but also largely leaving housing issues to the private market. Housing construction was taken over by private persons; with private companies (developers) gaining prominence later on.

These resulted in a very liberal regulatory environment in housing in these three countries compared to Western European housing systems – but also to other Central and East European transition countries.

Table 1. Change of tenure structure (in percentage) of full housing stock, 1990, 2001

	Year	Public rental	Private rental	Owner occupied	Other
Bulgaria	1993	9.3	0.4	89.9	0.4
	2000	8.7	1.9	88.9	0.5
Hungary	1990	23	3	74	-
	2001	4	4	91	1
Romania	1990	32.7	-	67.3	-
	2001	2.7	1.1	96.2	-

Source: for Bulgaria, see Elbers and Tsenkova, 2003; for Hungary and Romania, see Hegedüs, 2013.

Another similarity among the three is the lack of a consistent housing strategy. Social and income inequalities have been growing steadily after the transition (see Table 2). Housing affordability and the access to housing have become a substantial challenge to vulnerable groups, and the lack of a flexible and reliable rental sector hinders labour mobility to a large extent. A key goal of all three countries was EU accession, which set a number of ambitious goals for them. Nonetheless, housing was never a central issue of accession talks, and thus policy efforts were mostly concentrated on other issues, particularly on economic restructuring and the introduction of a functioning democracy and rule of law.

Table 2. Gini coefficient of Income per capita

Country	1987-1990	1996-1998	2007-2008
Bulgaria	0.23	0.41	0.45
Czech Republic	0.19	0.25	0.26
Estonia	0.23	0.37	0.36

Hungary	0.21	0.25	0.31
Latvia	0.24	0.32	0.36
Lithuania	0.23	0.34	0.38
Poland	0.28	0.33	0.34
Romania	0.23	0.3	0.31
Slovakia	0.22	0.3	0.26
Slovenia	0.22	0.3	0.31

Source: Mitra, 2001 p.9.; Wikipedia (Gini coefficients by country)

Nonetheless, despite all part of the EEHM, the three countries began their transition from different starting points, and there were significant differences in their post-transition development path.

In **Bulgaria**, private ownership was nominally accepted and widespread throughout the socialist period, although the housing market was under strong state control, which severely limited actors in practicing their property rights (Lowe, 2003). The transition to market economy was slower and more painful than in most other new EU member states. Outmigration from Bulgaria is by far the most significant of the three countries compared, and it began at the time of the regime change, due to the extremely heavy burden of economic readjustment, and the massive unemployment of the 1990s. The share of state owned housing was smaller than in the other two countries, and so the role of privatisation and/or restitution was also somewhat more limited; however, what public task housing Bulgaria had was sold primarily to sitting tenants, leaving less than three percent of the housing stock for public (social) rental purposes. The process of privatisation and restitution was gradual: a law on privatisation and on compensation for nationalised property was not passed until 1997.

Foreign investment played an important role in the housing development of all three countries, but its impact was particularly strong in Bulgaria. Investors buying real estate, particularly in ski and sea resorts, drove prices up steeply, which contributed to a housing price bubble by the late 1990s, which made housing very hard to afford for a large part of the local population.

Finally, a specific law was passed in 1992 to compensate members of the Turkish minority, aimed at the hundreds of thousands of Bulgarian citizens of the country's Turkish ethnic minority, who were expelled from the country between 1984 and 1989.

In **Hungary**, about one quarter of the population (and half of the urban population) lived in state owned affordable rental housing in the mid-1980s, which dropped to around three percent by the early 2000s (8 percent in Budapest). Privatisation began as early as the 1980s, although only at a slower rate; but after the regime change it was boosted by very heavily discounted prices for sitting tenants (at around 15 percent of the dwellings' market price), and as there were no limitation to resell the apartment on a market price right after the acquisition, there was a strong incentive for every sitting tenant to buy as long as they could afford the discounted price.

Although the transitional recession represented a shock in Hungary as well as the other two countries, its impact was less dramatic, and well into the 2000s Hungary's economic development was considered exemplary among transition countries. Private banking

and the mortgage market developed faster than in the other two countries, and foreign exchange currency (FX) mortgage loans became widespread from 2004. However, this also meant that the Great Financial Crisis (GFC) hit the economy very hard after 2008, resulting in the massive indebtedness of private homeowners with an outstanding mortgage.

A conservative administration (lead by the Fidesz party) had been in place since 2010, which responded to the crisis with a series of 'unorthodox' economic policies.

Table 3. Housing Loan to GDP ratio (%)

	2002	2004	2006	2008
Bulgaria	0.7	2.6	7.0	12.2
Hungary	4.8	10.4	15.0	23.2
Romania	1.0	1.4	1.8	3.7

Source: European Mortgage Federation; European Banking Statistics; Hungarian National Bank

Romania's economic and political post-transitional instability lasted throughout the 1990s. However, market economy was largely consolidated by 2000, and was characterised by relative macroeconomic stability, high growth, low unemployment and increasing foreign investment between 2000 and 2008, with an average annual GDP growth of 6.9 percent. Post-GFC disturbances were treated with prudent macroeconomic management (partly as a condition to an IMF loan), and led to a gradual recovery.

Privatisation of state owned housing was quite overwhelming: by the early 2000s, Romania had Europe's highest home ownership rate at around 97 percent; and the privatisation of public housing was still underway in 2014. The development of the housing finance environment is more similar to that of Bulgaria: the mortgage market is quite limited, and no FX loans were introduced.

The restitution of real property nationalised in 1945 is a pressing issue in Romania. With the Laws 112/1995 and 10/2001, the state returned the property in kind or in equivalent if the former owner required. However, Emergency Ordinance no. 40/1999 provides that owners of property privatised after 1 January 1990 must conclude a new rental contract with the current tenants if they require so, followed by similar protection measures that are still in force. In March 2014 the European Court of Human Rights ruled that Romania must return privatised property to their owners, or compensate; this process is set to begin in 2017 the latest.

The region as a whole has seen a significant population drop in the past few decades, with Hungary losing about five percent of its population, Romania losing about ten percent, and Bulgaria losing one-fifth since 1990. In real terms this means a drop from 10.4 to 9.9 million in Hungary, 23 million to 21 million in Romania, and 8.9 to 7.3 million in Bulgaria between 1989 to 2012. This was triggered by a low birth rate and a high death rate as well as a massive outmigration, mostly motivated by more attractive work opportunities in other EU Member States.

Although international outmigration is massive, internal labour migration is low within all three countries, which is to a large extent due to the lack of reliable and available rental housing. Although the level of unemployment varies greatly among the various regions

within each country, the flow from low economic activity areas toward the more dynamic ones is modest, even when the latter face a clear lack of workforce.

Finally, war migration has some current significance in Bulgaria since the start of the Syrian conflict. The number of migrants during the Yugoslav wars was insignificant in all three. Lately, the Syrian war triggered a massive wave of immigrants who enter the EU through Bulgaria, and roughly one third of them is not given full refugee status, which means they have to stay inside the country. Their entering into the rental market is a source of conflict to some extent, although so far the greatest problem is the lack of sufficient space on asylums, the physical condition of asylums, and of course the lack of satisfactory job opportunities for migrants. (Jakovljevic, 2014)

1.1.2. Current situation

According to Eurostat SILC data, 86.6 percent of inhabited dwellings in EU-12 (new Member States, excluding Croatia) is owner occupied, as opposed to the 70.6 percent average owner occupation rate of EU-28, or the 66.5 percent average of old EU Member States. The three countries examined here fit into this trend of 'super home owner' states, ranging from a 87.4 percent share of home owners in Bulgaria to 96.6 percent in Romania (Eurostat-SILC: "*Distribution of population by tenure status, type of household and income group*", ilc_lvho02).

However, anecdotal evidence suggests that the statistics hide an unreported and poorly regulated private rental sector in all three, where owners hide their rental income from tax authorities, and if tenants are aware, they cooperate in return for a lower rent level.

The number of public task tenancies and private rental units is quite low in an EU-wide comparison. Informal solutions have an important role in all three examined countries, which is not limited to black market renting, but also includes various forms of cohabitation, interfamily transfers, as well as reduced price or free rentals within personal networks.

Bulgaria's population of 7.36 million people is housed in 2.66 million dwellings. The National Statistical Institute noted 3.88 million housing units in the country, only 68.8 percent of which is inhabited. The astonishing number of vacant units is probably explained partly by the large number of holiday homes in ski and sea resorts, also considered as dwellings fit for permanent living by the NSI. Main urban centres include the capital Sofia (1.24 million inhabitants), followed by Plovdiv (431,000); Varna (334,000), and Burgas (200,000).

87.4 percent of all inhabited dwellings are owner occupied according to Eurostat SILC data and NSI Census data of 2011. Aside methodological differences, respondents may have made larger efforts to hide private rentals from national surveyors for tax avoidance. The full applicability of statistical categories used in the Western part of Europe is also questionable here, as "owner occupied" housing units as understood by NSI includes both outright owner occupier households, but also homes where tenants live in the same dwelling as their landlords (6.1 percent of all households). Nonetheless, official statistics may not cover most low quality self-built housing in extremely poor

areas (in ghettos or outside settlements), the size of which is unknown but is significant; and all of this kind of housing is owner occupied.

Hungary's population of 9.9 million people live in 3.9 inhabited dwellings, out of the country's 4.4 million housing units, indicating a 12 percent vacancy, which is somewhat lower but still prominent in urban areas. The largest urban centre is Budapest, with around 1.7 million residents, followed by a series of smaller centres of 100,000-200,000 each.

SILC data shows 89-90 percent owner occupation rate, as opposed to 92 percent measured on the national Census of 2011. SILC data shows that 2.8 percent rent at a market price, while 6.7 percent rent at a reduced price or free. This latter includes both social rentals (at around three percent of the housing stock) as well as rent-free tenancies, arranged within family or in households' informal networks. The Central Statistical Office differentiates rental tenures by the type of landlords rather than rent the setting mechanism, and measure social rentals (three percent of the housing stock) and private rentals (4 percent). While the number of social rentals is a clear cut case (the landlords are typically local municipalities, who have no reason to lie to surveyors), the share of private rentals is probably significantly higher, at around 8 percent of the full stock according to expert estimates.

Romania is the largest country of South East Europe, with a population of 20.3 million. It's largest urban centre is Bucharest (1.8 million inhabitants), followed by local urban hubs of 200,000-300,000 people. The country's 7.4 million households live in 8 million housing units, of which 1.43 million (16.4 percent) is vacant.

96.6 percent of inhabited dwellings are owner occupied, 0.8 percent are let at a market price, and 2.6 percent are let at a reduced price according to SILC data (2012). National Census data shows an even stronger predominance of owner occupation, presumably for the same reasons as in the other two countries (chiefly underreporting private rentals for tax avoidance). Experts believe that private renting is vastly underestimated, and its share may be as high as 11-15 percent in urban areas.

The number of affordable rentals, provided by public authorities to persons in need according to pre-determined social criteria, is clearly unsatisfactory in these three countries. Although social rental tends to be very affordable, its quality is often barely satisfactory, and the supply is so limited that it only serves a fraction of the legally eligible applicants. This reinforces the threefold structure of the private rental sector (PRS). In all three countries there appears to be a small high-end private rental market (it does not exceed one percent of the private rental market in any of the three countries), which primarily serves well-off citizens and expatriated professionals in the large urban centres. These typically function fully legally, and provide enough profit to landlords so that they will not need to resort to tax avoidance. This is also the area where professional landlord-investors are the most prevalent.

The majority of private renting falls in a middle range, where typically accidental landlords (who either inherited a second home, or bought one for small scale investment purposes) rent out to low to medium income persons. This level is more affordable to the average citizen; also, hiding rental income from tax authorities is much more prevalent in this category. The very basic regulation of private renting may lead to complications

when conflicts arise (e.g. small repairs, delays in payment etc.), supposing there is a written contract (the written form is not necessarily a condition for the contract's validity).

A smaller number of private rentals are at the lower end of the market, accommodating low income persons who could not procure a social rental dwelling, most often due to the unsatisfactory supply of social rentals. In Hungary, for instance, a large number of people defaulted on their mortgage loan payments after the Great Financial Crisis (GFC), but were not eligible for social rentals based on their social situation, since they owned a real estate property within the past 5 years.

The first category – the high end rental market – is largely satisfactory with regards to the number and quality of available rental dwellings, and renters here enjoy a high level of tenure security. However, this is the smallest segment of PRS in the region. Tenure security and quality and equipment of dwellings is very uneven in the middle range, and tends to be poor in the cheapest rentals. Although the three countries are at the low end of EU Member States in terms of per capita income (even if considered by purchasing power parity), this is not just a result of their economic realities, but also a number of shortcomings in the regulatory environment.

Table 4. Housing quality and cost indicators

	No of dwellings per 1000 inhabitants	m ² per person	Dwellings with a bath or shower (%)	Housing cost level (EU27=100)	GDP in PPS (EU27=100)
Bulgaria	450	25.2	<i>no data</i>	32.4	43.0
Czech Republic	427	28.7	95.5	58.0	78.0
Estonia	454	29.7	67.1	74.7	63.0
Hungary	399	31.2	91.3	46.5	63.0
Latvia	398	27.0	60.3	62.9	61.0
Lithuania	375	24.9	71.1	45.3	53.0
Poland	307	24.2	86.9	47.6	49.0
Romania	352	15.0	58.9	55.1	42.0
Slovak Republic	310	26.0	92.8	52.4	72.0
Slovenia	358	30.9	92.3	69.3	87.0

Source: EU Housing Statistics 2010

1.1.3. Types of housing tenures

Based on statistical data (both Eurostat SILC and national Censuses), **home ownership** is vastly predominant in Bulgaria, Hungary and Romania, accounting for 90 percent or more of the housing stock. Nonetheless, qualitative studies and anecdotal evidence in all three suggests that owner occupation is not as prevalent as Census respondents claim. The extent of informal economy is relatively high in these countries, accounting for an estimated 31.2 percent of the GDP in Bulgaria, 28.4 percent in Romania, and 22.1 in Hungary; as opposed to the EU28 average of 18.5 percent in 2013 (Schneider, 2013). Informal economic activity plays a particularly emphatic role in private renting, hiding *the larger part* of PRS according to housing experts. Social

housing and rental housing with a public task is free of tax avoidance (as it is tax exempt, except for the local communal taxes), and hence is fully represented in official statistics; accordingly, we have reliable statistics in this regard. One sign of this is the correspondence between national and Eurostat data, which is not the case for private rentals.

The share of **intermediate tenures** has no real significance in these countries. What may be considered the closest to 'mixed tenure' is rent free tenancy, which is more of a mix between social and market rental (the landlord is a private owner, but the profit motive is less salient). A mixed tenure forms between ownership and rental are insignificant.¹ In Romania, however, we may consider tenants living in restituted property, who enjoy a great deal of tenant protection under various Government Ordinances (esp. G.O. 40/1999 and its extensions), although here too the trend is towards eventually granting owners their full property rights.

Condominiums in these three countries usually refer to a form of management of multi-family buildings. Condominium laws were partly introduced to arrange the status of multi-unit buildings where the common parts remained unregulated after the wave of privatisation. Nonetheless, these laws regulate the behaviour of a community of *owners*, and if an apartment is rented out, the person or entity in charge of cooperating with the condominium is the owner, whether it is a private person or a public body.

Where **housing cooperatives** are active, they chiefly act as management and maintenance organisations of multi-unit buildings. Nonetheless, the dominant tenure form in these buildings is still owner occupation, and the owners are expected to take responsibility for rented apartments.

Mixed tenure forms between ownership and renting barely exist in any of the three countries.

In all three, national statistical offices register rental tenure data by the type of owner, where municipally owned rental dwellings are considered "**social rental**" (**rental with a public task**) and rental units owned by private landlords are considered "**private rental**" (**without a public task**). Eurostat SILC surveys, on the other hand, register rentals by the rent price, and differentiate between "market price" and "reduced price or free" (see Table 5). Although these categories correlate to some extent, they do not correspond entirely.

Table 5. Share of owner occupied and rental housing (%), 2012

¹ Unless we consider ownership with an outstanding mortgage; but it does not have a different legal status in any of the three countries, as long as the owners pay instalments on time.

	Owner occupied	Rental (market price)	Rental (reduced price or free)
Bulgaria	87.4	1.3	11.3
Hungary	90.5	2.8	6.7
Romania	96.6	0.8	2.6
EU-12 (new Member States)	86.8	4.3	8.9
EU-15 (old Member States)	66.5	22.0	11.5

Source: Eurostat SILC [Distribution of population by tenure status...](#) (ilc_lvho02)

The legally defining feature of **rental dwellings without a public task** is the owner, who is either a private person or a private legal entity. The typical owner is an “**accidental**” **landlord**; someone who manages and lets a second (sometimes a third) home, but this is not their primary source of income.

Given the large share of below market price landlords in **Bulgaria** (their number multiple times higher than that of market renters), we cannot even necessarily state that the private rental sector is driven by a clear profit motive. The large share of landlord-tenant cohabitations is also quite striking in the Bulgarian rental market, originating from the severe post-transition economic crisis, when masses of people needed to find an income source – often their own home. Furthermore, a survey conducted in the 1990s suggested that over half of the available rental accommodations in an attractive area (downtown Sofia) were rented out by businesses for office space, rather than individuals with a residential purpose. (Lowe, 2003)

Presumably even a large number of private individual landlords in **Romania** and **Hungary** may consider their second home to be an asset, e.g. for the future use of family members, and rent it out primarily as a part of its long term maintenance strategy. The achievable rental revenue would lead to a very long cost recovery, so unless the second home is inherited, the goal of investment is usually the dwelling itself, rather than the rental income.

In all three countries, the vast majority of **rentals with a public task** are owned by local municipalities, and a smaller part is owned by the state, or by other public bodies. This stock was created in the early 1990s, when the responsibility for previously state owned social rentals was transferred into the competency of local municipalities. This was directly followed by a mass privatisation, most prominently to sitting tenants, triggered on the one hand by municipalities’ ambition to balance their finances, and on the other by a widely accepted ideology attributing a greater efficiency to a privately owned housing stock (which did not entirely worked out as expected – see later).

The share of public task rentals (owned by the state, the municipalities, or other public bodies) in the housing stock is around three percent in Hungary, 2.6 percent in Bulgaria, and 1.5 percent in Romania, according to the respective national Censuses (2011). Most of them are **social rentals** in Bulgaria and Romania, although a small part of the stock provides home to municipal staff. And while most public task rentals are social rentals in Hungary, a part of the stock here is leased out at differentiated price ranges in a threefold system: to improve the sector’s financial sustainability, municipalities rent out some of their stock at a cost-recovery price (lower than market rent, but significantly

higher than the social rent level), and they also let high quality apartments at a market price, to counterbalance the losses generated by social housing provision.

All public task rentals provide better tenure security than open market renting, typically a 5 year contract, in some cases an open-ended one; and most of them are significantly more affordable. Accordingly, beneficiaries are incentivised to stay in the sector as long as they can. The adverse effect of the outstanding tenure security in the social rental sector compared to open market renting is the accumulating arrears typical in all three countries, making the sector as a whole financially unsustainable. This hinders any further expansion or development, resulting in the poor maintenance and the gradual dilapidation of the stock – and therefore to a growing number of vacant municipal flats in a dangerous condition, but with no resources to renovate.

The share of free or reduced price rentals, as measured by Eurostat (SILC), is significantly higher than the share of municipally owned rentals in all three countries: 11.3 percent in Bulgaria,² 6.7 percent in Hungary, and 2.6 percent in Romania. The explanation of this is that a significant part of privately owned rentals are let out within the friend or family network, so that landlords have someone reliable to manage the apartment and prevent its amortisation, and pay either a reduced fee, or at least the utility costs that would still burden the owner if the unit was left vacant. They may lose the market rent, but since renting on the open market does come with a fairly high risk of non-payment or even the accumulation of arrears due to vague regulations and the non-enforceability of contracts, letting for a below-market price or free may still be an attractive option for many second home owners.

The **quality of rental housing** is very uneven in the three countries rental sectors. High end privately owned rentals and medium price private or municipal rentals tend to be well equipped, and range from high to at least acceptable quality. However, there is no regulatory control over the quality of rental units; they merely have to correspond with the modest minimum criteria for habitable housing. The very liberal regulation on housing issues means, among other things, that rental contracts essentially need to cover two issues to be considered valid: (1) a clear indication of the object of the contract (it has to state exactly which parts of which dwelling are to be rented); and (2) a clear agreement on the rent level. Also, not all contracts are concluded in a written form. Concluding the tenancy contract in writing has been a requirement for its validity in Hungary since 2006, but in practice some contracts (e.g. the ones that date before 2006) are still valid after an oral agreement. To date, written form of tenancy contracts is not a validity requirement in Bulgaria and Romania. Therefore the quality of the rented dwelling, particularly in private renting, is mostly only in line with the landlord's financial possibilities. Accordingly, even rentals at an average price could have some serious flaws, and cheaper units (both market and social rentals) could have some significant weaknesses, among which leakages, poor thermal insulation, and other imperfections in machinery and equipment that make utility costs higher and the dwelling all the less affordable. Both social and lower end market rental apartments are usually inhabited by the lowest income groups, for whom utility costs mean a serious financial problem, but in

² Bulgaria's particularly high share includes landlord-tenant co-habitations and other various forms of rent free of lower-than-market-rate uses.

many cases the landlords do not have the means to improve the dwelling either. This is another point where the sector of low cost rentals (both public and private) seems to be trapped in a vicious circle of limited finances and growing arrears.

The share of professional landlords is very low in the whole region, which could be an indication of the unsatisfactory functioning of the rental sector: due to both uncertain regulation and unenforceable contracts, but also to the limited solvency of possible renters and high risks associated with non-payment and arrears, investors cannot expect a solid and reliable profit in renting, and therefore stay away from the rental sector. Surprisingly, it was the recent financial crisis which gave a small boost to professional landlordism: developers who could not sell their residential real estate in the post-2008 downturn started renting out individual units, to recover some of their losses. However, chances are they will only continue this activity until the market takes up again, to the level they can eventually sell their property.

1.1.4. Other general aspects of the current housing situation: lobby groups, vacant housing, and the role of the informal economy

Professional landlordism is largely absent in all three countries. Lobby groups or umbrella groups play a very limited role on the national rental markets, if they exist at all; and it is unclear if they have any discernible influence on housing and tenancy regulations. While homeowners' associations or condominium management associations are active in Bulgaria, Hungary and Romania, small scale ("accidental") landlordism and the low share of (reported) tenants do not result in an attractive environment for rental advocacy groups. Widespread tax avoidance also deters landlords from joining professional organisations.

Although there is a National Real Estate Association in Bulgaria since 1992, it gathers real estate agents rather than landlords or tenants; and despite its long history, it consists of only a fraction of Bulgarian estate agents. Hungary's National Association of Tenants was founded as early as 1989, and initially played an important role in tenant advocacy, but lost its significance in the massive privatisation wave of the 1990s. Currently the association is quite passive due to a lack of resources.

The share of vacant dwellings is above ten percent in all three countries, and there are no significant countermeasures in place in either of them. While massive industrialisation pushed people in industrial centres before 1990, leading to higher vacancy in rural areas, many of the former employers were shut down in the transition process, and the share of vacant dwellings rose in larger towns as well. This is exacerbated by the population drop that has been continuous and consistent since the late 1980s, although – paradoxically – it also alleviates the social burden of the high vacancy rate. Although the percentage of uninhabited homes is significantly higher in rural areas, their share is around ten percent in urban contexts as well. It is doubtful whether measures to sanction vacancy could be successful. Many of the vacant properties are in economically underperforming areas, and there is a risk that countermeasures would hurt an already quite vulnerable group of owners, without spurring much activity on the housing market.

There is no single methodology for measuring the size of the informal economy within a country's GDP. Nonetheless, estimations exist: the extent of the informal economy as a percentage of GDP was estimated to be around 25-33 percent in new EU member states between 1990 and 1999, and as much as 20 percent in 2007 (Hegedüs et al., 2014b). Analysts largely agree that black market activities permeate the rental sector to a great extent, meaning not only widespread tax avoidance in private renting, but also informal subletting in the public rental sector. Tax evasion has been a strategy for many households and economic actors to manage the hardships of the transitional recession, and as it absorbed some of the social tensions associated with the transition process, it was (in some cases, still is) often overlooked by the authorities. Black market activities in the housing market (such as fraudulently selling a home with a fake ID) are salient, but statistically not so significant. Tax evasion, on the other hand, is everywhere in the rental market: in all three markets, unreported rentals massively outnumber fully legal and properly taxed transactions. Also, rental contracts do not always have a written form; even where it is required by law, in practice contracts are sometimes concluded through implied action, which also facilitates tax avoidance, and makes keeping track of the sector all the more complicated.

1.2 Economic factors in comparison

1.2.1. Comparative view of the housing market

The maintenance of a large affordable housing sector, including a state owned housing stock isolated from market mechanisms, was part of all three housing systems under socialist rule, and weighed a heavy financial burden on these countries. The transition process led to a series of decentralisation, privatisation and restitution efforts, where the state withdrew from all sectors, and focused on boosting private sector development. One step in decentralisation was the delegation of social housing provision to local authorities; and since local authorities managed limited resources, privatising housing units was a logical step to improve their budgets (but also to boost private ownership). In practice this usually meant the sale of housing units to sitting tenants at a heavily discounted price.

As a result, housing markets in Bulgaria, Hungary and Romania predominantly function by free market rules; in all three only small sub-markets are exempt. In principle, every aspect of both the sale and lease of residential housing depends on the free agreement of the contracting parties, as long as it does not violate other legal provisions (e.g. the contract law). Furthermore, tax authorities have been very permissive towards tax evasion in private residential renting – as stated above, to facilitate households' struggle through the transitional recession – and efforts to fight tax avoidance in the PRS began only recently. In our estimation, private rental markets are regulated in a manner so liberal it could be considered “underregulated”: the regulatory environment is so lax it does not provide stable conditions for PRS, which makes the sector as a whole unpredictable to the parties, and hurts its development (despite the original goal of boosting private property and the free market).

Housing with a public task is a notable exception. In all three countries, social rental housing is primarily provided by the local municipalities, while the state and other public bodies could also own and manage a housing stock. The precise regulation of the management of such housing depends on the owner, and in some cases, they may have the right to rent out some of their dwellings at a market or near-market price (to improve their financial management); but for most of this stock, the selection criteria of tenants are laid out in their respective decree. In any case, the share of public rental housing does not reach four percent of the full housing stock in each of these countries.

Restituted housing in Romania is also an exception. Restitution laws were accepted starting from 1995 (Act 112/1192, and later Act 10/2001), returning ownership to the former owners; the current owners in restituted property became tenants by the virtue of these laws. However, a law was also passed to protect these new tenants: they had the right to automatically renew their contract for five years, followed by newer and newer such prolongations. A final restitution law was eventually passed in April 2013, ruling that the rightful owners of formerly nationalised property have to be compensated in points (with a nominal value of RON 1 each) if they cannot be compensated in kind. The compensation process – concerning 200,000 claims – is expected to be concluded by 2024;³ and until this date, part of the housing stock will remain exempt from free market mechanisms.⁴

In quantitative terms, the supply on the housing market is satisfactory. With the rise of industrialisation and urbanisation, intensive residential building became inevitable to house new urban populations in all three countries. Housing construction continued after 1990, although inevitably slowed down in the post-transition recession; but the first half of the 2000s brought about a renewed impetus in new construction, ending with the GCF. As the population has been dropping in all three countries, there is no demographic pressure on either of the housing markets. However, the liberalised market did not lead to a balanced demand and supply in housing: the share of vacant housing is above ten percent in all three countries, and overcrowding is high in a European comparison: according to Eurostat SILC data for 2012, the rate of overcrowding was 44.5 percent in Bulgaria, 47.2 percent in Hungary, and 51.6 percent in Romania (the highest in the EU).⁵

This can at least partially explained by the fact that housing in the economically best performing areas is often unaffordable for lower income households; however, due to economic restructuring and the disappearance of jobs in many former industrial bases, people are forced to migrate to these areas in order to find employment. If a household remains in a slow labour market area, it might find itself trapped, as its property loses its market value, while household members' chance at holding down a stable job decreases.

³ <http://www.neurope.eu/article/romania-passes-property-restitution-bill> Romania passes property restitution bill, 17 April 2013.

⁴ Restitution and the various compensation processes had their fair share of controversies in Bulgaria and Hungary as well, but were much less subversive, and the processes were largely concluded by the end of the 1990s.

⁵ http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_lvho05a&lang=en Overcrowding rate by age, sex and poverty status – Total population [ilc_lvho05a].

Working markets are typically the urban hubs, most importantly the capitals; while many rural areas seem to be in an irreversible process of shrinking. In Bulgaria, property prices are stable or rising in ski and sea resorts (e.g. Varna, Burgas on the Black sea coast) and in the cities (Sofia, Plovdiv), and become hardly affordable to many locals. In Hungary, real estate market in the Central and Western regions (with an intensive commercial contact in old EU members) is picking up after the recession, while property depreciation continues in the rest of the country, and real estate in remote rural areas is virtually unmarketable. In Romania, property prices are stable in Bucharest, in the larger towns (of more than 300,000 inhabitants), and particularly in Black sea resorts, while rural areas are on the decline.

1.2.2. Comparative view on price and affordability

While there are statistics on **household income levels** in Bulgaria, Hungary, and Romania (both by the national statistical institutes and by Eurostat), there are no precise statistics about **private sector rent levels** in either of these countries, partly due to the informal nature of private renting. Accordingly, the typical cost of rents is an estimation based on informal sources (e.g. the authors' practical experience, internet forums), stakeholder interviews, and anecdotal information. Moreover, considering average household incomes as a basis of rent-to-income ratio will result in a very generic picture that may not give very accurate information on the typical renter household, given the widening income differences in all three countries, but also the gaps among various categories of renters (high-end versus low income).

Average "mid-level" rental prices in all three are estimated to range between EUR 250 and EUR 1,000, depending on quality and location. High end rental prices high quality, well located rentals go up to EUR 1,000 in Sofia, EUR 2,000 in Budapest, and to almost EUR 3,000 in Bucharest; while low end rentals could be around EUR 200 or less per months.⁶ There is some differentiation among smaller urban hubs: the rental market is more expensive in Bulgaria's ski and sea resort, the smaller cities in the better-off Central and Western Hungarian regions, and in Romania's seaside cities and medium sized cities (with a population of around 300,000).

Utility costs are a significant factor in housing affordability: in the case of less expensive rentals, utility costs might actually exceed rent. Their average share within household budgets in post-socialist countries grew from cca five to about ten percent in the 1990s; and then continued to grow in the 2000s (Hegedüs et al., 2014b). Exacerbated by the poor energy efficiency level of a huge share of residential buildings, it is an important issue for low income households, and a major problem to low income renters.

According to Eurostat data, gross average monthly incomes are EUR 380 in Bulgaria, EUR 830 in Hungary, and EUR 500 in Romania.⁷ However, due to the relatively large role of the informal economy in household incomes as well as in private renting, household income statistics also need to be taken with some caution. While it is possible

⁶ These ranges are the estimation of the authors of the national reports for Bulgaria, Hungary and Romania, based on interviews and average rent levels indicated by major real estate agencies.

⁷ Based on Eurostat "[Average gross annual earnings in industry and services](#)", 2011 [Code: tps00175].

to make a basic estimation of rent-to-income ratio using estimated average rents and statistical average household incomes, it is not sure if the result of such a calculation would give very helpful information.

Furthermore, more precise information on the median renter would also be necessary for this kind of indicator to be truly helpful. We know that

- a) while social rental provides significantly more tenure security than private rental, which clearly is an unattractive tenure form in this regard, home ownership provides the strongest tenure security by far; and
- b) nearly every element of housing support (on the central or the local level) is targeted at home owners. There is no imputed rent on real property, while there is limited support to social renters, and virtually no form of subvention for private renters.

Accordingly, we have reason to believe that every rational actor who has the means to acquire home ownership will do so, and households will only continue to rent in the long run if they do not have the means to buy. We believe that the median private renter is usually a student or young person, *or* someone with average income, who needs to remain mobile, *or* someone whose income is too low to buy a home, and lacks support from the family. Two of these three typical renter groups have lower than average income levels; so we have reason to believe that the group of renters as a whole has lower than average income. However, it is very difficult to make estimation on their income level without conducting surveys specifically in this regard.

While the GFC and the surge in the share of non-performing loans made it clear that not everyone can afford to own a home, the housing related tax and subsidy environment has so far largely retained its post-transition structure, focusing in reinforcing private ownership. Social rental is made attractive by its affordability, despite the low prestige associated with it, but the supply of social rentals is very limited in all three countries. The only thing that makes private rental attractive is the high level of flexibility; other than this, it is an expensive and unsecure tenure, which is unattractive to tenants. Private rental has so far only become a stable market for students (who by definition usually search only for a short period, usually two semesters); and there is also a high end market for foreign professionals.

The affordability of social rental housing is a straightforward issue in Romania: while social rent levels are determined by a complicated formula, according to national regulation it must not surpass ten percent of the beneficiary household's income. In Bulgaria and Hungary, the vast majority of social rentals are owned by municipalities, who can define rent levels fairly autonomously, and as a result they vary greatly depending on geographical location. They are usually significantly more affordable than market rents, although even this may be unaffordable for some of the extremely poor renters. The real challenge here is the scarcity of social rental dwellings: in all three countries, the number of households who pass the legal criteria for social housing is far greater than the number of social housing units.

1.2.3. Tenancy contracts and investment

Institutional for-profit landlordism is nearly entirely absent in the countries in question, which – in our assessment – indicates the unsatisfactory level of return on investment in market renting. The vast majority of landlords in either of the countries are individual (“accidental”) landlords, and maintaining a second home is not always an investment in private renting. Many individual landlords simply inherited a home, which they rent out to generate complementary income (especially if they cannot sell it at an attractive price); and many purchase an apartment for the future use of family members, and rent it out to compensate for the mortgage loan payments.

However, renting out an apartment is a risky business due to the pool of potential tenants. Not only young or mobile persons rent, but also households with limited means who cannot afford to buy a home. Many landlords report problem or “disappearing” tenants, who might leave varying levels of arrears behind; and landlords cannot necessarily achieve compensation for these with the currently available conflict resolution mechanisms (slow court procedure).

Interestingly, the GFC and the following recession seem to have given a boost to private renting. On the one hand, the crisis made it obvious that – despite the general ambition for home ownership – not everyone can really afford buying an own home. On the other, home sales dropped significantly in all three countries, and some real estate developers decided to bridge their losses by renting out the unmarketable dwellings. However, their return remains low on these transactions, and they only view this as a temporary solution until they can finally sell their housing units.

The landlords of rental housing with a public task, on the other hand, are institutions: local municipalities own and run most public rentals, while ministries and some state owned companies and organisations also have (smaller) housing stocks, or – occasionally – an option to allocate tenants into municipal dwellings.

Social rental housing provision is the nearly exclusive responsibility of municipalities, delegated from the central level in the early phase of transition. Municipalities were charged with managing previously state owned housing and the responsibilities related to housing provision, no corresponding support from the central budget was allocated for this objective in any of the three countries. Although there were programmes in Hungary and Romania to support building social housing, the regular management of social housing receives no noteworthy support. Rent level in this sector is very affordable, and only covers a fraction of its costs. Accordingly, it produces massive losses to municipalities, who are thus incentivised to get rid of their social housing stock. As a result, many municipalities still try to sell out their housing stock in 2014, while in all three countries the persons legally entitled to social housing is multiple times greater than the number of available social rental units. Although there are some initiatives to counteract this process, the basic financial incentive system of municipalities remains intact.

1.2.4. Other economic factors

The activity of real estate agents is quite loosely regulated in all three countries. They essentially act as intermediaries between parties, and provide information and a basic

filtering of landlords (apartments) and tenants, but they do not take any formal responsibility for conflicts or adverse consequences once the rental contract is concluded. Nonetheless, their services can be very useful for foreign nationals, who are unfamiliar with the local market and customs, especially since the majority of the population (and of individual landlords) do not necessarily speak foreign languages fluently. Their fees vary – as does the general view on their fairness and efficiency – but tend to be around the equivalent of 1-3 months’ rent, depending on the rental submarket (lower to higher end).

1.2.5. Effects of the current crisis in comparative perspective

By the end of the 1990s, all three countries were largely past the transitional recession, and all three had witnessed prolonged economic growth between 2000 and 2008. They also shared a constant growth in real estate prices, as well as a relative construction boom. The housing finance market remained quite segmented though: mortgage lending became quite widespread in Hungary, with the share of owners with an outstanding mortgage reaching nearly the fifth of the total population, while their share remained below two percent in Bulgaria and lower than one percent in Romania. The high share of downright owners in these two countries can be attributed to the greater role of self-building, a higher role of intra-family transfers, but also to more cautious bank lending. Regardless of the volume of mortgage loans, the number of non-performing loans (NPLs, late payment exceeding 90 days) blew up in all three countries during the GFC and the ensuing recession, and available lending products were restricted.

Table 6. Share of non-performing loans, percentage of loan portfolio 2009-2013.

	2009	2010	2011	2012	2013
Bulgaria	6.4	11.9	15.0	16.6	<i>No data</i>
Hungary	6.7	9.8	13.4	15.8	17.6
Romania	7.9	11.9	14.3	18.2	21.6

Source: [The World Bank](#)

In **Bulgaria**, foreign investors played a huge role in real estate, and property prices almost tripled between 2004 and 2008. In 2009, property prices started to plunge, and they have been decreasing ever since; instead of the formerly dominant West European investors, a larger share arrives from countries that were less strongly affected by the crisis (e.g. the Russian Federation). The domestic mortgage market grew slowly even during the housing boom of the early 2000s, but it has been stalling and occasionally contracting since 2009.

No specific housing related legislation has been introduced in response to the crisis. However, in March 2014 the National Assembly adopted at first hearing amendments in the Law on the Consumer Credit⁸ according to which a penalty interest cannot be imposed for early credit repayment.

⁸ Law on the Consumer Credit, promulgated in State Gazette issue 18 of 5 March 2010, last amended State Gazette issue 30 of 26 March 2013.

Hungary's mortgage market was more advanced, but its development came to a halt with the GFC and the following prolonged recession. The country's most salient issue was that of foreign exchange currency (FX) loans. After the crisis, the repayment of loans grew and the share of non-performing loans grew simultaneously. The effect of the crisis was delayed, nonetheless, with the volume of mortgages only starting to decrease in 2012, while property prices have been falling since 2009.

In response to the crisis, FX mortgage lending was not only restricted by banks, but also by law. A number of measures were taken to "save" FX mortgagors, the financial burden of which was partly covered from the central budget, and partly transferred to the lending banks, with the justification that although such loans were legal, they were unethical. Limitations were also introduced on foreclosures, including a winter foreclosure moratorium first in 2009, and then repeated in the subsequent years. Also, a quota was introduced on the number of foreclosures permitted in each quarter. Finally, the National Asset Management Company was established: a public body whose mission is to buy the homes of defaulted FX mortgagors, and rent it back to them at a strongly discounted price.

Romania saw stable and dynamic economic growth between 2000 and 2008, followed by a sharp decline in 2009. The growth period was accompanied by a similar increase in incomes and prices (including house prices); and the GFC meant in household incomes in real terms. The share of NPLs tripled between 2009 and 2013 (7.8 percent to 21.7 percent). However, the crisis seems to have actually helped affordability in some areas: house prices skyrocketed in Bucharest and some other bigger cities prior to the crisis, reaching a Western European level (up to 3,000 EUR/m²), which dropped significantly after 2009. To this date, the most expensive housing market is in the capital Bucharest, and it was also characterized by the sharpest decline in prices, with the average monthly rent on the private sector dropping by 51 percent.

In 2010, the central government launched the Prima Casa (First House) programme to support mortgage lending for new construction; however, in the past few years this programme proved costly, and was mostly used to finance the purchase of existing housing, instead of boosting construction. Also, to counteract the spread of foreign currency loans, the government started to offer a state guarantee for loans issued in RON, starting in August 2013; however, due to the National Bank's base interest rate cuts, state guaranteed loans lost their advantage over commercial foreign exchange loans by 2014.

It would be difficult to formulate an assessment about which of the three countries has best overcome the crisis. These are relatively small and open economies, vulnerable to external shocks. The GFC meant a significant GDP contraction in all three: gross domestic product shrank by 5.5 in Bulgaria; and nearly 7 percent in Hungary and Romania in 2009. The initial shock was followed by a prolonged recession, with a decline in jobs and incomes, and housing transactions and new constructions fell to record lows in all three. The three housing markets and construction sectors have been recovering very slowly in all three. Economic growth in Bulgaria and Hungary remained near stagnation so far, with few signs of taking off in the future. Romania did produce a more spectacular year-on-year economic growth by the end of 2013, after a series of

strict austerity measures as per the EU/IFM agreement the country entered in 2011 to manage the effects of the crisis.

Given the limited size and especially the informal nature of private renting, it is difficult to formulate any precise conclusions regarding the effect of the crisis on the three rental markets; however, there seems to be no significant direct influence. The drop in house prices could be expected to make housing more affordable to households; but the GFC's other effects, like higher unemployment and decreased household incomes, largely cancel this out. As the role of landlord-investors is very limited; and individual landlords often seek goals other than direct rental profit (e.g. covering loan payments for a second home which is destined for future family use), therefore the crisis did not seem to have changed the course of private residential renting in these countries so far.

Nonetheless, there are suggestions that the crisis gave a small push to renting in all three countries. First, with the restriction of credit criteria, the opportunities to buy a home narrowed down. Second, the surge in NPLs shows that despite households' ambitions, owner occupation may not be affordable to all, and may not even be truly more affordable than renting. And finally, a number of people lose their homes as a consequence of defaulting on their loans, and they will be pushed out on the rental market, at least for a couple of years. However, this too is based more on qualitative studies rather than statistical data; and even if these changes start to show in official statistics, it is unclear whether they will prevail in the long run.

1.3. Urban and social aspects of the housing situation in comparison

1.3.1. Urban aspects in comparative perspective

The spatial distribution of tenure types

The opaque nature of private renting makes it difficult to formulate precise statements on the city-wide distribution of various tenure types (that is, the spatial distribution of rented dwellings within cities). Experience suggests that there is high demand for rental housing near the city centres due to the good access to jobs and services, but the more affordable parts of the outskirts or the suburbs may also be attractive for lower income renters. On the other hand, it is clear that private renting is an urban phenomenon in all three countries. Some 70-90 percent of rental dwellings are in towns and cities, and owner occupation is predominant in smaller municipalities and rural areas.

Thanks to more reliable statistics on municipal rentals, we can state that they have a very similar distribution: there is barely any in rural areas, making up as low as one percent in small settlements; and most of them are concentrated in towns and cities. Their city-wide distribution is clearer too: while there is no high-end market in municipal renting, some of these units may be close to city centres simply as a heritage of the socialist past, when the state owned housing units in fairly valuable plots as well. Nonetheless, the majority of housing units in attractive locations were privatized by the early 2000s.

Tenure forms and ghettoisation

The issue of extremely poor rural communities is important in all three countries. Better-off inhabitants tend to flee as job opportunities dry up, and the settlement becomes more and more dependent on social assistance. On the local level, this is hardly a result of the dominant tenure form, which is usually exclusively home ownership. However, an argument could be made that a flexible, reliable and affordable rental market could help the unemployed leave the areas where the job market is down. In most cases, low income neighbourhoods near urban hubs are still much better off, simply thanks to the closeness of an active job market.

Public perception often associates ghettoisation and social rentals in Bulgaria and Hungary (this may be less clear in Romania, simply due to the extremely low share of social rentals), which is in fact fairly similar to the public perception in most developed countries. On the other hand, a large part of “ghettos” (extremely poor segregated neighbourhoods) are in rural settings, in remote villages with weak or nonexistent transport connections with the job market where home ownership is the predominant tenure form. Clusters of social rentals in urban areas tend to be lower income than the surrounding areas, but they often remain relatively mixed, as they are saved from extreme levels of material deprivation by the closeness of available jobs. However, some of the extreme examples of poor urban areas are in municipal lands or in social rentals (e.g. some areas of the Batalova Vodenitsa and Krasna Polyana districts of Sofia), which reinforces the negative public perception of social rentals.

Tenure forms and gentrification

Although there may be some initial signs of gentrification in the larger cities, particularly in the capitals, in our assessment they do not reach the significance of gentrification related issues in Western European or North American large cities. During the socialist/communist regimes, state owned inexpensive rentals were everywhere in urban areas, including near the downtowns; after the transition most of them were privatised, and the neighbourhoods usually became unaffordable for the original tenants, who are forced to leave. However, despite a large number of low income persons migrating to cheaper areas, there remain quite a few affordable neighbourhoods in the capitals, even fairly close to the downtowns; and gentrification did not yet start to hurt middle class interests.

There seems to be no particularly clear public opinion on gentrification, or associated tenure forms – most of the population is not even necessarily aware of the concept, as it does not affect the lives of most people. If anything, it is associated with affordable rentals in relatively inexpensive parts of the bigger cities, which attract young middle class people – quite similarly to how the process is viewed in old EU member states, although Bulgarian, Hungarian or Romanian middle class comes with less purchasing power, hence the seemingly lesser effect of gentrification.

Squatting

Squatting is suspected to be limited in all three countries; however, it is difficult to precisely assess its significance due to the lack of statistical data in this regard, but also due to its invisibility. Most squatters in these countries are the most destitute of the homeless, who move into unused buildings. A huge vacant housing stock provides

ample opportunity for this, but there is no precise data on its extent; and due to its lack of direct social significance, it does not appear as a prominent issue in daily news.

1.3.2. Social aspects

The dominant public opinion in all three countries is a strong preference for home ownership. While social renting is widely seen as socially inferior, this is not necessarily the case with private renting. However, it most certainly grants significantly less tenure security than owner occupation. Even in renter societies and tenure neutral environments, such as Germany or Switzerland, people tend to buy their own home by the end of their active career, and prefer living in their own home after retirement. This preference is significantly stronger in Bulgaria, Hungary and Romania, three of the so-called ‘super home-ownership’ states, where not only is ownership the most secure form of tenure, but it is also the least expensive form in the long run, thanks to its preferential tax and subsidy treatment. We can safely state that home ownership is considered as the only truly secure option for retired persons.

The second safest option would be municipal dwellings in any of the three, or tenancy in a restituted dwelling in Romania, which also comes with legal safeguards. However, over time these options also seem more temporary: municipalities struggle to curb tenant protection to make their housing stocks more manageable; and Romania will eventually have to return its restituted dwellings to their owners (where the contracts of tenants were centrally prolonged by five year periods on multiple occasions).

Private renting is the most flexible, but also the most expensive and least secure tenure. It is wide-spread (and considered socially acceptable) in the case of students and young, mobile households, but people usually seek to buy an own home once they intend to start a family. In many cases, private tenants rent simply because they cannot afford ownership, and not because they seek flexibility (e.g. for workplace mobility within the country, which is notoriously low in all three countries). In the case of low income renters, or young persons with no financial help, this could indeed constitute a “rental trap”, where the rent means such a financial burden to the household that they cannot make enough savings for a mortgage down payment. Eventually, conventional wisdom in all three countries holds that it is cheaper to buy than to rent, and with all the tax and subsidy incentives aiming to boost ownership, and the complete lack of a tenure neutral environment, this is true in most cases – unless, of course, if we also consider the indirect losses caused by the lack of mobility and the rigid workforce.

Private tenancy is generally considered a temporary state in all three countries; and the average tenant will act accordingly. This means that everything related to the long term functioning of the household (the building and its equipment) is managed and maintained by the owner. Although municipal tenancies are much more stable and secure for their tenants, renters usually cannot afford to contribute significantly to the upkeep of the dwellings, and tend to rely on the municipality.

Privatisation often led to a mixed ownership structure in multi-apartment buildings, as owner occupation became the dominant form, but private rentals appeared, and some of the dwellings remained in municipal ownership. However, after a long history of relying

on the municipal management of council housing, new owners needed a fairly long transition period before being able to take full responsibility for their property as owners (or still expect council management in some rare cases). The management of multi-family housing was a problematic issue everywhere in the transition period, especially where the share of state owned housing was high before 1989. Although housing policies advanced slowly in Bulgaria, Hungary, and Romania, condominium laws were relatively well developed in all three, as the management of common parts in multi-apartment buildings was a major issue. (Elbers and Tsenkova, 2003)

2. Housing policies and related policies in comparison

2.1. Introduction

All three countries can be considered mixed welfare systems: they did retain a socialist tradition of relatively generous social provisions (e.g. free healthcare and schooling); but all three had to cut back on social spending from 1990 to facilitate the transition to market economy; and all three adopted a number of fairly liberal policies, to boost private sector development (and possibly to counterbalance the lasting influence of socialist past).

The informal economy is significant in all three, and countermeasures against it were not particularly emphatic until recent years. Most of the private rental sector is implicated in the informal economy; to the extent that the majority of private individual landlords do not report their rental income to tax authorities, and as it means a slightly lower rent level, tenants usually play along. According to analysts, the informal economy and intra-family transfers filled in the gaps in welfare provisions, and helped alleviate the social tensions stemming from the transitional recession throughout the 1990s. Besides this, the general permissive treatment of informal renting may have also been underpinned by the intention of political decision makers to allow the development of private profit-seeking activities during the transition period. But it also served as a buffer against social tensions during the transitional recession: on the landlords' part as a complementary income, and for the tenants, often as a sole housing option due to the waning social rental sector.

Altogether, housing provision is only very loosely integrated in the wider welfare structure. The provision of affordable rental housing by public bodies is limited in all three, and is unlikely to significantly increase in the foreseeable future, despite repeated efforts to maintain and expand the social housing stock (at least in Hungary and Romania). Taxation favours owners; social tenants generally receive a favourable tax treatment on account of their social situation rather than their tenure form, but private renting is largely treated as a business transaction, so the tax regime is insensitive to the income situation of private renters.

A constitutional right to housing does not exist in any of the three countries. The constitutions state the objective of creating a stable legal environment and ensuring the safety of private property and the inviolability of the home, and it is expected that these will create the right conditions for citizens to find decent housing. However, considering

the economic performance and fiscal limitations that Bulgaria, Hungary and Romania face, declaring an enforcing a fundamental right to housing would probably be beyond their realistic possibilities.

2.2. Policies and actors

2.2.1. Governmental actors

In Bulgaria as well as in Hungary and Romania, decision making in national housing policy resides on the central government level, including the Housing Law, Condominium Law, laws and decisions on municipalities, housing related taxes and subsidies etc. However, none of the three countries have a consistent housing strategy, and housing related responsibilities are often dispersed among multiple ministries (finance, interior, public administration, justice etc.).

In the majority of cases, social housing provision is the responsibility of the local municipality, although local authorities' level of autonomy may differ. In Hungary, decentralisation was taken further in the transition period than in Bulgaria and Romania. Social housing provision was delegated to the local level in the latter two as well, but municipalities do receive some level of central support targeted at housing, whereas municipalities in Hungary are expected to fully cover social housing costs. This has led to the introduction of cost based and even market price municipal rentals to balance the losses incurring in the social rental stock. Besides being the primary social housing providers, municipalities also coordinate other aspects of local social provision, including some housing allowances and benefits.

Furthermore, regional authorities also play a role in housing policy implementation in Bulgaria, where the regional governor has the authority to implement the central spatial development policy.

In Hungary, some additional public actors also have a substantial housing stock, including the Ministry of Interior, the Ministry of Defence, and the National Railway. Moreover, the National Asset Management Company, a public body created to help alleviate the effect of currency fluctuations on FX mortgage loans, is purchasing residential property en masse, and is planned to acquire a total of 25,000 housing units within the next few years, which become state owned affordable rentals (where the tenants are the former owners who defaulted on their currency based mortgages).

Romania's National Housing Agency is also a public body that plays a significant coordinating role in the development of national housing policy. It was initially established to assist the development of mortgage-financed private residential construction, but later the Agency also assumed the coordination of rental housing construction for young people, and some measures aimed at alleviating the social effects of GFC.

2.2.2. Housing policies

The main function and stated objective of housing related policies in each of the three countries is to create a stable and predictable legal environment, which allows citizens to procure decent housing. However, neither of the three has a coherent housing strategy, referenced or followed by housing related legislation, so the fundamental objectives of national housing policy can be tracked down in the countries' respective constitutions.

The Constitution of Bulgaria states the objective to ensure property rights and the inviolability of the home, expressing a fundamental preference for owner occupation, and provides legal foundation for supporting ownership. Article 22 of Hungary's Fundamental Law, in force since 1 January 2012, states that "Hungary shall strive to ensure decent housing conditions and access to public services for everyone", which expresses a general ambition rather than a clear policy commitment. Romania's Constitution does not directly mention housing or the protection of the home; it rather underlines the objective to create conditions for citizens to fully exercise their rights (e.g. protection of private property, fundamental human rights).

None of the three regimes is tenure neutral. Home ownership is supported by all three tax and subsidy regimes. This – together with the massive housing privatisation of the 1990s – contributed to all of them becoming 'super home-ownership' states. While private residential renting receives more preferential treatment than general business transactions (it is VAT exempt in all three), there are barely any subventions to private tenants, and none to landlords. Social housing provision is residual, and considered a last resort option for the most vulnerable households.

All of the three countries have special housing policies targeted at certain groups of the population.

Although policy papers identify Roma communities among the major groups of people that suffer from housing poverty, housing policy measures are usually not targeted on the Roma as a group; instead, they usually benefit from measures intended to tackle poverty and socially vulnerable groups. (There are various social integration efforts targeted at Roma communities, but these rarely have a housing element.)

Young people – usually people under 35 – benefit from various forms of housing related support, for subsidised renting as well as for purchasing a first home. These initiatives are particularly important for young, moderate income persons without substantial financial support from their families, especially that this is the generation that could not benefit from the privatisation wave of the 1990s.

Finally, in all three countries there is some sort of financial support for the accessible redesign of the housing of persons with a handicap. Typically such redesigns are implemented in owner occupied housing, as rental housing is rarely considered permanent to the level that a tenant would consider a major investment in it.

In Bulgaria, one of the special target groups of housing policy is the displaced ethnic Turkish population, regulated by the 1992 law "Ownership of Real Estate of Bulgarian Citizens of Turkish Origin Who Have Taken Steps to Leave for the Republic of Turkey and Other Countries in the Period Between May and September 1989". It aims to compensate the hundreds of thousands of Bulgarian citizens expelled from the country

during the so-called “Process of Rebirth” (*Възродителен процес*) between 1984 and 1989.

In Hungary, ethnic Hungarians immigrating from Transylvania (Romania) in 1990-1991 were accommodated in dwellings in public ownership, including emergency housing and municipal social housing. Since 2010, in response to the GFC, a number of special measures have been taken to manage the issue of persons with FX mortgage loans; most of these were not specifically targeted at persons who defaulted on their loans or are at risk of losing their home, but everyone who took on an FX mortgage loan before the exchange rate of HUF dropped significantly in 2008.

2.3. Urban policies: ghettoisation, gentrification, and quality control

Ghettoisation is a relevant phenomenon in the countries under review in both urban and rural settlements, and it particularly affects the most vulnerable groups and the Roma population. It is a result partly of spontaneous segregation process due to the affordability hardships of impoverished households who move to lower status areas, often in marginalised places, but partly of deliberate measures of municipalities who often move lower status and/or indebted families to municipality outskirts in the framework of rehabilitation programs. In urban context it primarily affects traditionally built urban neighbourhoods both with multi-unit buildings and single family houses, and some of these areas consist of municipal social housing or are on municipally owned land. Rural ghettos (including entire villages) derive from a two-way migration process when the better-off households leave the settlements while impoverished households who could not maintain their housing in cities/towns move into such settlements because of the low housing prices.

Although all three countries make some level of anti-segregation efforts, anti-ghettoisation measures or policies such as pepper-potting or consistency in creating mixed tenure type environments are not employed systematically. The actual treatment of areas at risk of ghettoisation is largely left to the planning division of local municipalities. And while some of the municipalities employ progressive strategies at preventing the segregation and further impoverishment of vulnerable neighbourhoods, or makes efforts to create mixed tenure areas, others might do the exact opposite by using segregation as a way of getting social problems out of sight, instead of tackling them (e.g. building social rentals outside the city boundaries; in some extreme cases building a fence around a problem area).

There is no strong gentrification process in either Bulgaria or Hungary or Romania, although there are some clear issues in the capitals and Bulgaria’s holiday resort cities which could be characterised as gentrification. In the real estate boom of between 2000 and 2008, housing prices in the most attractive parts of these cities increased to an extent that parts of these cities were effectively unaffordable even for the local middle class, particularly in Bucharest, Sofia, and the seaside resorts of Varna and Burgas in Bulgaria (although this process was slightly reversed by the GFC). Also, city managements will occasionally try to encourage some form of gentrification, in an attempt to push out lower income groups and attract higher income inhabitants (or

“better taxpayers”), or to attract investors and jump-start some form of capitalist urban development.

Anti-ghettoization and anti-gentrification measures

Probably the most prominent case of an urban ghetto in Bulgaria is that of Batalova Vodenitsa, a municipal land in Sofia with a Roma community, many of whose members occupy illegally built structures. The original renters of the municipal dwellings in the district moved in decades ago, followed by friends and family members who moved in semi-legally or illegally, and many built huts or houses on the municipal land. No anti-ghettoization measures were undertaken until 2005-2006, then 2008, when the Municipality of Sofia tried to evict illegal settlers. However, the settlers had no other home, and the municipality was not able to provide them housing elsewhere either. Eventually, the European Court of Human Rights ruled against the eviction (*Yordanova and Others vs. Bulgaria*, application no. 25446/06).⁹ The squatters of Batalova Vodenitsa were evicted regardless of the ruling, and moved to other ghettos in Sofia.¹⁰

What closest resembles gentrification in Bulgaria is wealthy foreign citizens purchasing high end property.¹¹ The issue is particularly significant in ski and seaside resorts, where they may push up the prices to the extent they significantly deteriorate housing affordability for locals. During the 2000-2008 boom, property prices rose by 300 percent. Nonetheless, an urban trend more prevalent than gentrification in the classic sense is the development of gated communities, private residential neighbourhoods cut off from their surroundings, such as the Mountain View Village southeast from the capital Sofia. (Stoyanov and Frantz, 2006)

Similarly to the other two countries, the majority of extremely poor segregated communities (or “ghettos”) are located in rural areas, often on the periphery of settlements; and typically to rural areas in all these countries, they are usually almost exclusively owner occupied (although in many cases these are low quality self-built huts). While owner occupation or private renting in an urban context does not have a link to ghettoisation, municipal social housing – particularly when concentrated in a close-knit area – is associated with some risk. In the urban development wave of the 1980s and 1990s, some urban renewal efforts included clearance of Roma settlements in

⁹ “The Court considered that it was legitimate for the authorities, for the purposes of urban development, to try to recover land from people who occupied it unlawfully. There was no doubt that the authorities were in principle entitled to remove the applicants who occupied municipal land unlawfully. However, for several decades the authorities had tolerated the unlawful Roma settlements in Batalova Vodenitsa. That had allowed the applicants to develop strong links with the place and to build a community life there. Notwithstanding the above, there was no obligation under the Convention to provide housing to the applicants. However, an obligation to secure shelter to particularly vulnerable individuals might flow from Article 8 in exceptional cases. [...] In the applicants' case, it was undisputed that their houses did not meet basic sanitary and building requirements, which entailed safety and health concerns. The Court noted, however, that the Government had not shown that alternative methods for dealing with those problems, such as legalizing buildings where possible, constructing public sewage and water-supply facilities and providing assistance to find alternative housing where eviction was necessary, had been studied seriously by the relevant authorities.”

¹⁰ ECHR Rules in Favour of Illegal Squatters in Bulgarian Roma Case. Novinite Sofia News Agency, April 24, 2012.

¹¹ Bulgaria's housing market is recovering slowly. Global Property Guide, April 7, 2014.

central urban areas, linked to the renovation or development of downtown areas. The former residents were moved to scattered dwellings, which technically led to their de-segregation, while the cleared downtown area was renovated, and gave place to new developments (either commercial or residential, but without any aim at keeping the old residents in place). However, this was not centrally coordinated or encouraged.

Currently, there are no policies in Hungary that explicitly counteract gentrification, while a number of local development and renewal plans endorse gentrification as a means of renewal either explicitly or implicitly. A very prominent example of this is the Corvin promenade development in Budapest's District 9, launched in the mid-2000s, aiming at clearing slum-like areas near Budapest's downtown, and exchanging residents through removing old, low income residents to new dwellings. On a technical level, this project can be considered anti-ghettoisation, although its implicit rationale was to remove the low income population from a possibly advantageous area to clear the space for new, attractive residential blocks, a shopping mall, and the redesign of the surroundings in a style that might cater to young urban professionals.

The mechanisms leading to ghettoisation in Romania are similar to the other two countries: either middle class and lower middle class people move away from an unattractive area, which further deteriorates it; or social rentals are built in a concentrated area (and often away from town centres). There are no centrally coordinated anti-ghettoisation regulations, and municipalities rarely employ any efforts in this regards. In some cases it is the municipality leadership that makes a conscious decision to raise a fence or wall around a complicated neighbourhood, thus creating an inverse "gated community".

Gentrification does not happen in Romania in a magnitude comparable to Western European or North American cities. Here, too, the property price boom led to housing prices often hardly affordable for the average citizen, which was slowed down and slightly reversed by the crisis. Similarly to Bulgaria, the issue of gated communities is more prevalent for the time being. And similarly to Hungary, city leadership occasionally attempts to employ pro-gentrification techniques to replace old residents with higher income ones, or with businesses, to as an urban development tool; but high income customers are not yet present in a mass that could massively crowd out current populations.

Quality control of private rented housing

In all three countries, there is no quality control whatsoever on private rental housing, besides the requirement that the rented dwelling must conform to the housing law's definition of a "house", that is, it must fulfil certain minimum requirements to serve as a person's residence. However, this is not controlled by any authority before the conclusion of a contract; it can only be used in a potential litigation if a conflict arises between the parties that cannot be solved outside the court.

2.4. Energy policies

The most important influence of European energy policies on the housing sectors of Bulgaria, Hungary, and Romania is the subsidies for energy efficient refurbishment of

residential buildings, and the harmonised energy efficiency standards set for newly built housing. Despite the importance of these factors on the three countries' housing stock, which certainly have high energy saving potential, these do not directly influence their rental sectors. On the other hand, they might have an indirect impact on the buildings where energy efficient renovations are undertaken. The low level of energy efficiency often raises utility costs significantly, which could seriously hurt affordability. However, such renovations are rarely implemented on housing with low income residents, so this indirect impact is quite limited.

2.5. Subsidization

None of the three subsidy systems is tenure neutral: the most generous housing related subsidies are targeted towards home owners; there are virtually no central subsidies for private renters; and while there are various forms of support for social tenants, these are granted on the basis of their social situation rather than their tenure status. Private landlordism is essentially seen as a for-profit activity, and therefore there is no support for private landlords whatsoever; and despite the very limited supply of social rental housing, support for private rental is very rare.

In **Bulgaria**, the housing related subsidy that reaches the most households is heating allowance in the winter months. There are some forms of support that are very strictly targeted, like assistance to persons with disabilities for accessible retrofitting; military housing subsidy; and a subsidy for municipal social renters, the conditions of which are so strict that in 2010 it only reached 200 beneficiaries. Unlike the other two countries, there was no large scale programme to support social housing construction.

In **Hungary**, the largest parts of housing related central expenses supports current or future home owners. Loan and mortgage interest rate subsidies have been accounting for two thirds of all housing related support for housing; and contract saving schemes (based on the Bausparkasse model) for another 16 percent.

While there is no central subsidy for private renting, there are some municipalities that offer rent support for low income private renters, if the local authority cannot allocate them a rental unit due to the chronic lack of municipal housing. Although central governments were committed to support the construction of social rentals from 2000, the rent support programmes launched in 2000 and 2005 were not successful: neither could substantially reinforce the position of municipal housing or renters. In the post-crisis years, the focus of subsidy programmes shifted towards encouraging new construction and home ownership.

The first housing related subsidies introduced in **Romania** in the 1990s were granted for the completion of residential constructions suspended after 1989. A subsidy scheme to support ownership through new construction and acquisition was launched shortly after, and was replaced by the Ownership Scheme of the National Housing Agency (ANL) in 1999, which channelled housing related subsidies primarily towards mortgage support and a Bausparkasse system based on the Austrian and German models.

A subsidy programme to boost social housing construction was the "Construction of new social and necessity rental housing" scheme, launched in 1996, which only covered the

construction of a few hundred units each year. ANL's largest rental programme was "Rental Housing for Young People" from 2001, aimed at the population group that had not benefited from the large-scale privatizations and was facing affordability problems on the private market. More than 32,000 housing units were completed in this programme by 2012, with the support of local authorities, central resources, and from foreign loans. The programme was not targeted at the neediest; furthermore, in 2007 the central government decided to sell housing units to sitting tenants to fund new constructions, so eventually this scheme further reinforces owner occupation against rental tenures.

2.6. Taxation

There is no disputed rent in any of the three countries, which also means that home owners do not pay an income tax on their property. Local property taxes ('communal taxes') could be based on the market value of the property, but this cannot be conceived as a form of income tax either, as is used by the local authority for basic services (e.g. waste collection).

Private tenants do not pay taxes on their tenancies. Individual private landlords pay the usual personal income tax on their rental income, and institutional landlords pay corporate income tax. Nonetheless, residential tenancy is VAT exempt, which can be considered as a form of subsidization via the tax system (which distinguishes residential tenancies from purely for-profit business transactions).

In Hungary, owners who let their property to the local municipality for at least 36 months are exempt from PIT payment on their rental income (but have to pay PIT retroactively as well if they terminate the contract before its expiration).

Tax on rental incomes is ten percent in Bulgaria. In Hungary it is 16 percent for private persons and 10 percent for legal persons (the latter cut from 19 percent in 2013). In Romania, income tax is a flat 16 percent. Neither levy VAT on residential rentals, and health contribution is only payable above a fairly high annual income level. While these can be considered low rates, combined with the lack of subsidies to the private rental sector and the generous subsidy opportunities for home owners, the overall system of taxes and subsidies further distorts the three already quite unbalanced tenure structures towards the predominance of owner occupation.

The expected influence of the relatively low tax rate on the rental market is that should encourage landlords to duly pay their rental incomes. Nonetheless, the vague legal environment of private renting makes private renting a risky business for tenants (especially because of the low tenure security) as well as landlords (especially because of the potential financial losses); and as a result, the vast majority of landlords do not report their rental revenues to the tax authorities to improve their margins, but also to attract reliable tenants with a slightly better rent level. While tax authorities (at least in Bulgaria and Romania) made initiatives to encourage tenants to report on landlords if they suspect the latter does not pay taxes, it is uncertain whether tenants are truly incentivised to do so, as this might deteriorate their relationship to their landlord, while they might just benefit from the slightly lower rent levels as long as PIT tax payment is being avoided. Tenants are more likely to report on the landlords when a conflict

emerges between the parties, or they already intend to leave the tenancy, but it is unclear how effectively this helps to improve the overall tax payment performance of the sector.

3. Comparison of tenures without a public task (Regulation in Private Markets)

3.1. Evaluative criteria for the landlord

3.1.1 Profitability

There is no rent regulation in any of the three private rental markets. All contractual conditions, including the rent, the methods and frequency of payment, the landlord's visits in the dwelling etc., depend entirely on the agreement of the parties. The rent is VAT-free in all three countries. Landlords have to pay an income tax on their rental income (Personal or Corporate Income Tax, depending on the type of landlord).

In principle, the landlord should cover all expenses related to the long term quality of the apartment (general maintenance and repair of main equipment), and the tenant should take care of minor repairs that do not affect the overall quality of the apartment (clean, change light bulbs etc.). However, there are no detailed mandatory regulations in any of the three housing laws; at best there are dispositive measures from which the parties can freely deviate in the contract. This means that – unless the parties prepare a very detailed rental contract to cover all possibilities – the uncertainties regarding maintenance obligations is a potential source of conflict between the parties.

In order to conclude a valid contract, parties only need to set the most basic information in the contract, that is: the identification (address) of the dwelling to be let, and the amount of rent and regularity of rent payment. On top of that, in Bulgaria and Romania the rental contract does not have to be written in order to be valid. Consequently, the majority of private rental contracts only contain the most basic and general provisions regarding maintenance and renovations – if any. If the parties ever come to litigation as a result of a conflict about this particular issue, the governing law would be the Housing Law (unless the Civil Code or another higher ranking legal source contains provisions on residential renting). Litigation is lengthy and expensive, so parties will usually attempt to avoid it, and manage their conflicts privately. However, loose regulations and the lack of alternative dispute resolution services probably raises the number of court cases, which effectively risks profitability for landlords, and could be an important factor in discouraging them from entering or remaining on the private rental market.

There is no regulation in any of the three countries as to which party should cover utilities (water, gas, electricity) and other costs (e.g. local waste tax, common costs of the condominium etc.). In practice, utilities used by the tenant are most often expected to be paid by the tenant. The majority of private rental dwellings are in multi-apartment buildings, and as long as the tenant resides in the dwelling, he also has to pay the common costs of the building. Common costs usually cover the normal daily maintenance of the common parts. However, in a growing number of cases common costs also contribute to a renovation fund for the building. While well informed tenants

usually expect the landlord to cover this part, as this contributes to the long term value of the dwelling rather than the everyday use, whether or not the landlord does cover it depends more on the private negotiation of the parties, and expresses their power position. In practice, landlords often devolve it to the tenants; also, some tenants do not even make the effort to obtain information on the precise items covered by the common costs, while others simply avoid the potential conflict to avoid the risk of having to move from the dwelling.

In assessing these factors, we can conclude that rent related regulations or the tax environment do not impede a reasonable profit for landlords in the Bulgarian, Hungarian or Romanian private rental market. Still, a number of disadvantages stemming from the loose or unsettled nature of the legal environment significantly curb the profitability of renting for landlords, to the extent that institutional landlords are largely absent from all three, and the vast majority of lessors are individuals who lease a property for reasons other than profit making (e.g. providing a future home for family members, and renting it out to help cover its expenses).

Such disadvantages are the loose regulation of rentals, which often materialises as a source of conflict between the parties; the weak enforceability of contracts; the slow court system and expensive conflict resolution; and the limited solvency of the average tenant. Altogether, private renting is a fairly risky business for both tenants and landlords. From the point of view of landlords, tenants may damage the apartment or leave significant arrears behind, not only in unpaid rent, but in unpaid utility costs (and the low level of energy efficiency exacerbates this significantly). Landlords can hardly demand a rent level that would cover for their risks outside the high end of the rental market. Safety measures, e.g. concluding a contract in front of a notary, are costly, but litigation tends to be even more expensive; and its length particularly deters parties from filing a lawsuit, as it usually takes years, which is strongly disproportionate to the tenant's immediate need for a stable home, as well as for the landlord's immediate costs and debts related to a dwelling they cannot exploit. If landlords seek a profit, they need to establish their own conflict management methods, and in many occasions they are not fully in conformity with regulations. Also, most private individual landlords avoid paying taxes on their rental income to improve their margin.

However, neither of the three countries private rental sectors has a profitability potential that would attract institutional landlords. In our assessment, the lack of professional landlordism indicates an overall socio-economic imbalance of all three private rental sectors.

3.1.2. Property rights respected de iure and de facto

Risks: non-payment and damages

The risk of default on payment is a relatively important issue in all three private rental markets. Also, *utility arrears* are on par with it. While real estate prices as well as market rents are altogether still relatively low compared to many old EU member states, energy price and utility costs have been approaching international market prices; so it is not rare that the utility costs of a rental housing unit equal or surpass the rent. The overall poor energy efficiency level of the housing stock exacerbates this issue.

In all three countries, there is a risk of contracting tenants who will 'disappear' and leave behind huge arrears. Moreover, in the worst cases tenants abuse regulations created to protect vulnerable tenants (e.g. winter eviction moratorium; possibility to object to the termination of the contract, even if it is done due to non-payment or other breach of contractual obligations). While landlords in all three countries technically have the right to terminate the contract of a tenant who does not pay the rent for 3 months, evicting the tenant and thus regaining the use of the dwelling is a whole different issue. Aside from the general procedure of emptying the dwelling, there are further measures in place to protect vulnerable tenants. Concluding a contract in front of a notary public can accelerate the process, but due to protection mechanisms, a non-paying tenant can actually stay in a rented apartment for another year or so. In some cases, tenants simply abuse the protection measures (like the 'winter moratorium tenants'); others might simply abuse their position in the apartment, and refuse to pay and cooperate with the landlord, even if there is no real legal basis to their claims; and in other cases again, they truly have no other means. Both these are aggravated by the low supply of affordable public rentals, and the lack of options for many low income households outside the private rental sector. And a non-cooperating tenant who stays in an apartment for a prolonged period when his relationship with the landlord is already beyond reconciliation has no incentive to pay rent or utility bills or common costs.

A non-cooperating tenant could accumulate massive arrears. On the other hand, there are issues with the effectiveness and efficiency of enforcing contracts, and court process, decision, and enforcement could take many months, or even a few years. (Extremely long litigations do exist, but cases lasting longer than 2 years are rather the exception.) Although the number of court cases is not huge, they do result in very significant losses to some private landlords.

Some of these landlords will not necessarily be able to ever recover these losses:

- unless a loss-making tenant has stable income or savings, they cannot always repay the incurred losses – and the riskiest tenants have none of these;
- in other cases, the landlord is never able to find or identify the disappeared tenant, e.g. in the cases when the tenant originally identified himself with a fake I.D., or the landlord was careless enough to accept a tenant without proper identification and check of papers.

This probably deters a large number of landlords from entering the market in the first place, which hinders private rental market development (in countries where the limited supply of affordable rentals is already a pressing issue).

In Bulgaria, a number of tenants attempt to rent out apartments with fake IDs, and the Notary Chamber discloses around 20 fake IDs each year. As most private rental contracts are not concluded in front of a notary, this is probably only a fraction of all cases. In Hungary, some interviewed landlords complained about 'tenancy hoppers', who give false data on their contract, disappear after a few months (leaving behind utility arrears), and move to another private rental, where they presumably do the same thing all over again. 'Winter moratorium tenants' were also mentioned as a risk factor. These issues only cover a small fraction of private tenancies, whoever, they could generate a

huge loss to landlords, who in turn set higher prices for all tenants to make up for the potential loss.

One of the reasons landlords do not authenticate rental contracts with a notary public is that in the three countries' rental culture it is commonplace for tenants to come and go fairly quickly. On the one hand, owners avoid additional costs for a tenant who may be gone within a few months, and on the other, while they could be devolving part of the notarial fees to the new tenant, they risk deterring tenants with an additional cost at the beginning of the tenancy, and hence losing out on rental revenue. This issue is probably a lot less pressing on the high end market, and stable middle class renters in higher quality housing probably also manage to resolve their conflicts in a more mutually satisfactory manner.

Deposit

The deposit is explicitly regulated in the housing law of Hungary: it should not surpass 3 months' of rent. In principle, this should cover the landlord's losses if the tenant does not pay rent for 3 months (although this does not make up for utility arrears or damages to the apartment). In practice, landlords usually ask for less, 1 or 2 months', as the average tenant could not afford the legal maximum. It is not explicitly regulated in Bulgaria, and applies only to housing under GEO 40/1999 in Romania; but it is still a standard practice in both in residential renting, and functions in roughly the same way as deposit in practice in Hungary.

Owners on the low end of the market, letting out very poor quality apartments to very low income renters, sometimes ask for no deposit at all, on the assumption that the tenant could hardly do any significant damage to the dwelling. On the other hand, the owner in such a case does not necessarily intend to follow the slow legal procedure if the tenant refuses to pay; and the tenant in such a case probably does not have the means to start litigation. On the other hand, owners on the high end of rental market could easily ask for up to 6 months' rent as deposit. As in many other potential conflict sources, parties rarely go to court to arrange their issues, since they need an immediate solution, and by the time a court decision is reached (months or years later), the issue will have no relevance to them.

In the majority of cases, the parties do reach an agreement, and are able to manage potential conflicts amicably. Conflicts regarding the repayment of the deposit are reported from all three; however, parties nearly never go to court for this. However, if a rapid mediation or alternative dispute resolution alternative were available, a significantly larger number of such cases would probably be recorded.

Personal securities (surety) or insurances are not used in practice by landlords to ensure their property rights. All three legislations provide for a statutory lien of the landlord over the belongings of the tenant, although it is hardly ever used in practice, simply because the regulation itself is not very well known or understood. A landlord will probably only apply it if he is a lawyer himself, or if he is a professional investor with a very detailed knowledge of the regulatory environment (very rare). A further uncertainty is whether the value of the tenant's belongings covers the losses incurred to the landlord. Moreover, the informal nature of most of the private rental sector further limits the application of such safety mechanisms.

A key principle of the private rental sector in all three countries is the contractual freedom of the parties. If the contract is open-ended, any of the parties can terminate it by a simple notice, within a fairly short period: it is the longest in Romania, 3 months; and the shortest in Hungary, where a written notice by the 15th of the month is sufficient to terminate a contract by the beginning of the next month. In the case of fixed-term contracts, parties usually respect contract expiration, although in practice it is usually considered legal to include a clause for the possibilities of terminating the contract before the termination date. In Romania, there is also a hardship clause permitting the termination of a fixed-period contract if it becomes “excessively onerous” for either of the parties (although here too the foreseeable length of the litigation procedure is not in line with the needs of the parties, and hence this kind of safeguard is hardly ever put in practice). While there is no such clause in Hungary, this may not hinder the parties to provide for such a possibility in tenancy contracts concluded for determined period too, thanks to the dispositive nature of the pertaining regulations.

Dispute resolution and eviction

Alternative dispute resolution is hardly ever applied in any of the three. Although the legal regulations do not treat this issue at all, which also means that no legally defined conditions to launching ADR services, it is almost unheard of in all three countries. The reason for this could be that fragmented individual landlords and tenants lack the necessary coordination to put such mechanisms to practice; and while an example of successful ADR mechanisms may be able to spread, so far there are no such examples in any of these countries to instil public trust towards them.

Since there are no special courts for housing and rental issues, parties have to go to ordinary courts if they want to resolve their issues legally. This does not only mean a lengthy procedure, but it is also hard to foresee results, as court decisions are autonomous and may be quite diverse, which some decisions giving preference to tenant protection, and others electing to ensure respect for private property above all. Due to the informal nature of a large part of private rental sector, landlords could attempt evicting (or driving out) the tenant through informal means, as the cost and duration of litigation is rarely on par with the means and possibilities of either of the parties.

An effective and efficient forum for alternative dispute resolution would be extremely helpful, but it would also require a sort of housing policy and justice system reform that does not seem likely to happen in the near future. A number of private companies have recently emerged which undertake the management of rented property, and occasionally provide special services – such as removing the uncooperative tenants from the dwelling within 2-3 month. However, given the length of legal objection and moratorium options of the tenants according to law, these companies probably do not work in a fully legal manner.

Access to finance and subsidies

Mortgage credit is available on all three markets, although the share of owner occupied dwellings with an outstanding mortgage is much higher in Hungary than in Bulgaria and Romania. Subsidies on mortgage loans were comparatively high in Hungary in the early 2000s, but were gradually phased out by 2004, when they were replaced by the similarly

inexpensive FX mortgage loans (particularly CHF based loans). This led to a serious difficulty for a huge number of households after the GFC, when the HUF depreciated significantly against CHF and other base currencies, and in many cases debt levels exceeded by far the dropping market value of the purchased housing unit. Although mortgage lending did not enjoy a similar level of state support, and FX loans did not expand significantly, the growth of mortgage lending did eventually begin in Bulgaria and Romania too in the 2000s. According to European Mortgage Federation data for 2012, the residential debt to GDP ratio was 20.7 percent in Hungary, 17.6 percent in Bulgaria, and 6.6 percent in Romania. (Although due to the relatively short period of development of mortgage markets, this still falls short of EU-27 average of 52 percent.) In all three countries the crisis brought about a surge in non-performing loans, and the financial sector's restriction of the credit supply.

This means that the mortgage markets have been developing in all three countries, albeit at a slightly different pace. However, this has a very limited impact on the rental markets. Subsidized mortgage loans and mortgage interest rate subsidies are generally targeted at first time home owners. And although market loans were available for landlord-investors, the overall legal and financial environment does not support the development of the private rental sector, or the functioning of professional landlord-investors.

In all three countries there are various subsidies for construction and for rehabilitation; although the former is usually combined with support for buying an existing home (particularly for young households buying a first home), and rehabilitation subsidies are usually for energy efficient renovations. However, these too are usually targeted at home owners. In this regard, too, construction or renovation subsidies to incentivize private landlord-investors are largely missing, as private renting is seen as a for-profit activity, which should be competitive and viable without external support.

In Bulgaria, public subsidies for energy efficient renovations were introduced shortly before the crisis, which so far seriously limited their expansion. In Hungary, construction support is mostly limited to young persons with children, who expected to become owner occupiers as a direct outcome. Energy efficient renovations have become quite popular, and even though they slowed down in the wake of the crisis, it seems that they retain their popularity even as public support dwindles. However, they probably only affect the rental sector indirectly. Furthermore, they may lower utility costs, but raise market price/rent level, so while it improves the general quality of the housing stock, its price effects might cancel out. In Romania, the first building subsidy for construction was introduced in 1994, for the completion of residential constructions suspended after 1989. It was followed by various forms of support, although here too it was primarily aimed at prospective owners, particularly young families.

Subsidy schemes created on the basis of the Bausparkasse system exist in both Hungary and Romania; it is in the pipeline in Bulgaria, although not in place yet. As it is not tied to social criteria, it is available for investment purposes as well, although it is only likely to support private landlordism to some extent.

Following the predominant principle of contractual freedom, a private arrangement where the tenant agrees to rehabilitate apartment (performance in kind) in lieu of paying

rent is perfectly feasible in all three; however, it has hardly any practical significance to date.

3.2. Important evaluative criteria for the tenant

3.2.1. Affordability (rent, deposit and other expenses)

The level of initial rent and the possibility and rate of future rent increases is entirely up to the agreement of the contractual parties, in line with the principle of contractual freedom which governs the private rental sector. “Gross disproportionalities” may be corrected by the court; however, this hardly ever happens in real life due to factors discussed earlier (particularly, the financial value of the disagreement rarely justifies litigation costs; and parties usually need a prompt solution while court procedure tends to last for months or years). However, even when future rent changes are not laid out in the contract, the parties may start negotiating a modification of the rent level. Although tenancy contracts are only valid if they express the mutual will of the parties, and hence a unilateral rent increase is not legal in any of the three countries, the eventual agreement of the parties will reflect their power relations. The possibility of a unilateral raise of the rent is a risk factor to tenants, and as long as it is not an extreme raise, they will probably rather accept it (or negotiate an acceptable level), otherwise they have to move away (high transaction cost).

The amount of deposit is not regulated in Romania, with the exception of restituted housing under GEO 40/1999. It is not formally regulated at all in Bulgaria. However, in both countries the standard practice in private renting is 1-2 months’ rent upon the conclusion of the contract. There is a legal maximum in Hungary, although most private landlords accept less than the legal maximum, and high end owners may ask for more. Aside from covering potential losses, landlords also use it to filter tenants and avoid the ones who will probably have problems with payments in the future. Interviews suggest that in the low end of the market, landlords occasionally ask for no deposit at all (in the cheapest and lowest quality rentals, where they assume that the tenants can do no great damage to the unit anyway). Altogether, although paying the deposit is somewhat an issue to renters, it does not mean an affordability problem comparable to regular rent payment or high utility costs.

Conflicts do sometimes arise at the payback of balance at the end of tenancy, but due to the informal nature of the sector, there is mostly only anecdotal evidence on this. In the case of conflicts at payback, but also in the cases where a landlord demands a higher deposit than the legal maximum, the slow and costly litigation procedure will keep most renters from trying to resolve such an issue in court.

In practice, tenants usually pay for the services (utilities, equipment) that they directly use; while the owner pays for expenses that contribute to the long term condition and usability of the property. E.g. tenants pay for their own utility consumption and they pay the common costs in a condominium and communal taxes to the extent it covers their own wellbeing; however, if the common cost has a long term renovation fund which enriches the owner, it should be paid by the landlord. However, in practice the contractual freedom of the parties prevails in this regard too. That is, if the landlord does

not inform the tenant that part of the condominium cost is transferred into a long term renovation fund, they can devolve the entire common cost payment to the tenant in the contract, who will have no legal remedy in this case once he signs the contract. In practice, the individual agreement as per the division of fees, costs and local taxes of the housing unit will reflect the power position of the parties.

Theoretically the same principles apply as with the regulation of expenses: small, immediate repairs fall into the responsibility of the tenant, and larger renovations which raise the overall market value of the property fall on the landlord. However, if the tenant decides to improve the property, they can usually demand compensation from the landlord; and the precise level of that compensation may be a source of conflict.

Other fees (e.g. registration fees or taxes to be paid by tenant) are not applicable in any of the three private rental sectors. Rent subsidies for low income households are very rare; so far they only exist in a handful of municipalities in Hungary, where they serve to counterbalance the chronic lack of municipal social housing.

3.2.2. Stability and Flexibility

The position of the tenants is comparatively unstable under the housing law as well as the contract and real property law in all three countries. Tenants do have the possibility to delay eviction; but they do not have any regulatory safeguards *before* this point. On the one hand, both parties have the right to terminate the contract in case of a breach of the other party; on the other, due to the very permissive regulatory framework of private rental in in Bulgaria, Hungary, and Romania, both parties have a right to terminate the contract fairly easily even if the other party fully respects the contract.

In accordance with the freedom of contract principle, the vast majority of contracts can be freely terminated at any point. A simple notice is sufficient to terminate open ended leases; the shortest notice period is in Hungary, where either party can hand in a notice by the 15th of a month to end the contract by the 1st of the following month; the longest notice period is 3 months in Romania. However, in all three private rental sectors it is not against the law to include a clause even in fixed-term contracts permitting the free termination of the contract before its expiration. It is generally considered acceptable to end the contract if a family member of the landlord wishes to use the dwelling, or the owner decides to sell it; in this sense, the owner's right to the property does outweigh the tenant's right to security of tenure. On the other hand, the tenant is also free to end the tenancy within a short period, and in this sense the flexibility of tenure is guaranteed.

With regards to subletting, the principles of freedom of contract and the protection of private property prevail. The tenant's right to sublet the whole or parts of a dwelling depends on his agreement with the landlord, and can be done only with the landlord's consent. In this sense, subletting is non-abusive as long as the landlord is aware of it, and has agreed to it. In Bulgaria, the law does not directly forbid tenants from subletting a dwelling or parts of it without the landlord knowing, if it results in no damage; however, it could easily be a source of conflict with the landlord, who in most cases has the freedom to unilaterally terminate the contract with a simple notice if he believes that taking in a sub-tenant without his knowledge was a breach of terms. In Hungary,

consent of the landlord is required, and in Romania, the consent must also be in writing to be valid; otherwise, subletting is legally considered a breach of the contract.

While the informal nature of the sector arguable weakens tenure stability in the private rental sector, the lack of a swift and reliable conflict resolution mechanism means that the only legal way to resolve disagreements is either an informal agreement or a court procedure; and the duration and cost of court procedure deters the contractual parties from this solution.

The private rental sector is certainly a flexible tenure in the sense that the tenant has the right to unilaterally terminate an open-ended contract with a simple notice, within a relatively short timeframe. On the other hand, the lax regulation and the limits of swift and efficient enforcement make the sector risky to the extent that it seriously limits its expansion; which in turn keeps actors (prospective landlords) from entering the market, and thus limits the sector's overall flexibility.

In Bulgaria and Hungary, the legislation lacks any rules designed for protection of the tenant from eviction on social grounds. All protection mechanisms in Bulgaria are encompassed in the respective procedural acts and only concern the right of defence of the affected persons against unlawful acts of the enforcement authorities. In Hungary, the landlord similarly has the right to terminate the contract if the tenant does not pay for 3 months, or otherwise breaches the contractual terms. While the tenant has no possibility raise objections on the substance of the execution procedure, it may be suspended one time upon the tenant's request for a period up to 6 months. There is also an eviction moratorium during the winter months, which serves to protect vulnerable tenants, but is generally applicable. The sole legal defence mechanism formally enshrined in Romanian law is the ban on evictions during the winter months, from 1st December to 1st March each year. In these two countries, the landlord has the right to terminate the contract if the tenant does not pay for 3 months; however, the termination can only be enforced following a court order, which may still present some delay in the procedure.

A very important factor impacting tenure stability in private residential renting is the widespread lack of a written agreement. Written form is not a condition of the contract's validity in Bulgaria and Romania. Putting the agreement in writing has only been a requirement of validity in Hungary since 2006, and contracts concluded before the entry into force of the new regulation continue to be valid. The details of oral agreements are extremely complicated to prove in a litigious procedure. Hungary's private rental sector benefited from the spread of written contracts (although in practice it may still be avoided, and numerous court cases address such tenancies); and Romania's new Civil Code provides enforceability of contracts signed before a notary public and registered with fiscal authorities as an incentive to boost both written agreements and official registration (thus the legalization of the sector as a whole). Nonetheless, the current regulation in Bulgaria and Romania does not ensure the overall stability and predictability of the sector.

One possibly threat to tenure security in many EU members states is that landlords may only accept fixed term contracts, which denies the tenant the security provided by the indeterminate contract duration. However, this kind of security is not enforceable in

Bulgaria, Hungary and Romania: in practice, any of the parties is free to initiate contract termination by simple notice. Landlords familiar with the regulatory environment will still prefer fixed term contracts to protect their interests, nonetheless, so they can initiate the eviction of a tenant without the lengthy judicial procedure once the contract has expired.

4. Comparison of tenures with a public task

4.1. Generalities

Local municipalities act as the main social landlords in all three countries, and “social rental” and “municipal rental” are very often used interchangeably. On an overall European comparison, their social housing systems are fairly similar. The share of the social housing stock is small, at around 2-3 percent: due to the massive privatization wave, which took a huge impetus in the 1990s, but could be felt even recently in all three countries – the supply of social rental units is very limited, and falls very short of demand in all of the countries in question. Municipally owned housing is in an overall poor physical condition; and not only do municipalities lack resources or capacity to renovate them, but they also generate losses, so in most cases even the incentive is missing to improve municipal rental housing.

Nonetheless, despite the similar outcomes there are some differences in the regulatory environment of the three municipal housing systems, some of which are as basic as their level of autonomy within the national administrative and legal framework; which in turn affects their whole range of possibilities in social housing management.

Bulgarian local municipalities enjoy the greatest level of autonomy, although a loose framework is defined in the Municipal Property Act. Aside from the obligation to provide housing to low income, vulnerable and otherwise disadvantaged populations, each of them is mostly free to adopt its own social tenancy regulations via municipal Ordinances, from selection criteria to conditions, rent level and rent increase. While the law sets out some regulatory points, in most questions it still gives discretion to municipalities in most regulatory issues. Furthermore, tenancy relations are not set in a contract under civil law, expressing the mutual will of the parties; instead, social tenancies are *allotted* through an act of a public authority.

Hungary’s social housing system is similar to that of Bulgaria in the sense that municipalities enjoy a great deal of freedom in regulating the housing stock they own. Nonetheless, their limitations are much stricter for two main reasons: (1) social tenancy relations are created through contracts under civil law between two equal parties; and (2) while the main legal acts regulating municipal tenancies are municipal orders, these cannot deviate from the Housing Law unless the latter provides them explicit discretion. A major difference compared to both Bulgarian and Romanian public task rental stock is the threefold structure of the Hungarian municipal rental stock: besides social rentals, they typically also manage cost-based rental units (cheaper than market rentals, although more expensive than social housing) and market price rentals. These are

considered public task housing too, especially as the income they generate helps make the municipally owned social housing stock more financially sustainable.

The Romanian social housing system is much more centralized than the other two, and most issues are centrally regulated by the Government Emergency Ordinance no. 40/1999, which regulates tenancies in restituted dwellings as well as state or municipally owned social housing. While social rent in Bulgaria and Hungary can vary greatly due to local authorities' discretionary rent setting, social rent in Romania must never exceed 15 percent of the tenant household's total income, and is defined by a complicated equation set by law. Overall, municipalities have very limited maneuvering room in managing the social rental stock.

Romania's GEO 40/1999 also regulates tenancies in restituted dwellings, where tenants who still reside in them enjoy a great deal of protection, and their contracts were centrally prolonged for five years on multiple occasions already. However, it is debatable whether these should be considered as public task tenancies, as the long term obligation of the state is to eventually ensure return of the right of use to the owners; and they will not be available as affordable rentals for future low income tenants.

Aside from public task tenancies in municipal ownership, there is a smaller rental housing stock with a public function in all three countries, owned either by the state, or ministries, or other public bodies (e.g. state owned companies). These units are typically retained for the use of the public sector employees working for the owner organization. While the number of (inhabited) municipally owned social rental units is in the order of a 100,000, the number of these "other" public task dwellings is around a few thousand units in all three countries. Aside from housing owned by the state or ministries, some examples of these are apartments owned by the Hungarian National Railways, or the Romanian National Bank. Another special case is that of ministries in Hungary which – aside from owning housing units – have a right to appoint tenants in municipally owned dwellings.

There are some other social landlords too (churches, charities, NGOs) in all three countries, but they usually operate under the national Housing Act, and their significance is marginal. They provide some important input for experimenting with alternative housing solutions for low income persons, although most of them were not yet adopted on a wider scale. One exception is Hungary's National Asset Management Company (NAMC), an entirely new type of rental tenure, initiated by the central government. NAMC was established to buy the homes of defaulted FX mortgage borrowers and rent them back to the former owners at a very affordable rent level. This is also the sole way in Hungary to date for defaulter mortgagors to be able entirely write off their debt, even if the current sale value of their home was lower than their debt towards the credit institution. The company is set to purchase 25,000 housing units by 2015, and although it is criticized for some of its clear shortcomings, it will likely become the largest social housing project launched since the transition to market economy.

The role of housing associations in public task rentals is negligible in all three countries. While housing associations do exist in all three housing regulations, they are more of a form of condominium management for a number of owner occupied multi-unit buildings

than a rental or intermediary tenure form. And while there have been some recent initiatives to launch Social Rental Agencies, they are not currently active as of mid-2014.

As municipal rental housing is the predominant subtype of rentals with a public task, we will treat it as a default and will discuss municipally owned rental housing unless specified otherwise.

4.2. Evaluative criteria for public/social/private subsidized landlords

Social housing provision is essentially the task of local municipalities in all three countries, and covering the expenses of housing provision is also almost exclusively their task. So while the social rental stock is very small (under three percent of the total housing stock) in all three countries, public task housing largely coincides with municipal housing; and nearly none of it is centrally subsidized. While the sector generates significant losses in all municipalities, they receive hardly any external funding from the state or any other sources for this purpose. This produces strong counterincentives for municipalities to maintain – let alone improve or expand – their social housing stock; and this is the main reason social landlords have still been selling out their housing units in 2014, despite the fact that by this date the need for more affordable housing has become obvious in all three countries.

The majority of the social housing stock is of a poor quality, and has been deteriorating. Quite commonly in all three countries, tenants are supposed to maintain their dwellings properly and do small repairs; municipalities or municipal companies should undertake large reparations; however, usually neither side has the adequate resources.

Tenure security in social rental housing is significantly stronger than in private rentals, although weaker than in owner occupied housing. Rent and utility arrears are very common in all three countries, which further incentivizes to municipalities to dispose of their social housing units if they have the possibility.

In **Bulgaria**, rent levels and the precise selection criteria are determined by the municipalities in accordance with the Municipality Property Act. There is no central regulation about the details of social tenancy, such as initial rents and rent increases, except that they have to remain significantly below market rents. Since there is no targeted funding from state bodies for social housing, most municipalities have trouble properly maintaining their social housing stock, with the exception of some of the better-off municipalities. The tenants do have the right to improve their dwellings, although their possible compensation for this is not regulated, which could result in unclear situations or conflict with the social landlord. As quoted from an interview in Yordanov et al. (2014, pp. 213), *“We had a dramatic case in which we found a social dwelling released from the tenants without windows – tenants had moved out and had taken the windows because they belonged to them”*.

In **Hungary**, the typical social landlord is the municipality, although two subtypes of municipal rentals which are not strictly social (cost-based rental dwellings and market rate municipal rentals). The rent setting of municipal tenancies is liberalized and depends on local municipalities' autonomous regulations, which should nonetheless be significantly lower than market rent level and reflect the guidelines laid down in the

Housing Law. Regardless of the exact rent level, rental income from social housing is unreliable and does not cover maintenance costs; the threefold system of municipal rentals helps make the municipally owned stock more financially sustainable.

In **Romania**, the lease regime for social rental dwellings is regulated by the Romanian Housing Law (Law nr. 114/1996), and the Emergency Ordinance no. 40/1999, which was also created to ensure tenure security for persons living in restituted dwellings. Social rent level is centrally regulated: it is calculated by a complicated formula, but must not exceed ten percent of the household's income. Contracts are usually concluded for five years, and may be renewed if the tenants can prove their continued income eligibility. A tenant can only be evicted by an irrevocable court decision, which is rare, and politically risky, and municipalities try to avoid them. The state provides assistance to the construction of new public housing (through the ANL), but the maintenance and renovation of existing municipal housing falls entirely on municipalities. Some public task rental programmes however, like Rental Housing for Young People, have funding from international financing agencies (CEB, Council of Europe Development Bank, Deutsche Bank AG).

The main target groups of the various housing policies in the three countries are the lowest income groups; young married couples (under 35) with no substantial family support; people with disadvantages; young people leaving social care establishments (after 18 years of age); disabled persons; and other vulnerable groups (e.g. persons who lost their homes in natural disasters).

Tenants of public task rental units which do not serve a strictly social purpose – like dwellings owned by a ministry or a state company – are not selected on a social basis, and therefore non-payment is less of an issue in their case. While the rent in these is usually to be lower than market level, the number of such dwellings is limited, so while this kind of subsidized housing provision is not profitable, appropriate funding does not mean a disproportionate burden to the landlords.

4.3. Evaluative criteria for the tenant

4.3.1. Access

The low share of public task tenancies in all three countries already indicates the huge shortage of affordable rentals. The number of persons who respond to the legal criteria of applying for a social rental dwelling is multiple times higher than the number of social rental dwellings. Yet the number of affordable rentals have been decreasing for decades now, even in Hungary and Romania where there were serious efforts to build new social housing; due to the disincentives stemming from the lack of appropriate funding against the financial losses generated by non-payment and low rental income. According to the data of CECODHAS Housing Europe, social housing took up 3.1 percent of Bulgaria's housing stock, while this rate was 3.7 percent in Hungary and 2.3 percent in Romania, while the share of groups at risk of poverty and social exclusion have been growing in all three countries (CECODHAS, 2011; Eurostat, 2013). As a consequence, a municipality could receive dozens – sometimes hundreds – of applications for each vacant social

rental dwelling; and as social rentals are the second most stable tenure form, the number of new vacancies is always low.

Similarly to most other aspects of social rentals, eligibility and selection criteria of social tenants is centrally defined in Romania, while municipalities have much more autonomy in Hungary, and even more in Bulgaria. Regardless of their level of autonomy or freedom to select and define contractual conditions, municipalities generally respect the spirit of the law in as much as they strive to house the persons the most in need. At the same time they need to create a balance between social housing provision and ensuring financial sustainability (or minimizing losses). In certain cases this could lead to unlawful practices, such as social landlords taking bids from applicants, or otherwise demanding financial guarantees to ensure that the future tenants will be able to regularly pay the rent, which is in clear contradiction with the principle to house the poorest persons.

4.3.2. Affordability

Similarly to other aspects of municipal rental housing, regulations on rent levels and rent increases reflect the level of decentralisation that took place in the transition period. Municipalities enjoy the greatest extent of freedom in Bulgaria, where social housing is allotted through an administrative act instead of a bilateral contract; and locale municipalities determine terms and conditions, including rent level and rent increase, deposit, regulation of expenses, repairs and maintenance, and local subsidies, with very little central regulation.

In Hungary social rental relations are created by a rental contract concluded between equal parties, although social tenants do enjoy greater protection than private tenants. Municipalities enjoy a large amount of autonomy in determining the regulations (rent levels and rent increase, expenses and maintenance, and so forth) of municipally owned rental housing, be it social, cost-based, or market based rental. At the same time these regulations must be in line with the Housing law and the sections of the new Civil Code on rental housing.

Romania's social housing system is much more centralized than the other two: essentially all aspects of municipal rental housing are defined by the Housing Law and Emergency Ordinance no. 40/1999. The rent level in social rental units is determined centrally by a complicated formula, and it can never exceed ten percent of the household's disposable income.

Despite the huge regional differences among social rent levels in Bulgaria and Hungary, landlords in all three countries make efforts to keep social rent at an affordable level, and they do succeed in all cases to keep them significantly below market levels. However, the affordability of social housing is frequently affected by factors entirely independent of rent and deposit regulations. Due to the privatization practices typical of the CEE regions throughout the 1990s, local authorities very often only managed to retain ownership of the housing units in the poorest condition. These dilapidated, poorly insulated buildings cannot ensure an efficient use of household energy and other utilities. If we consider affordability in the internationally used level, at thirty percent of a household's monthly income, then rent alone is often perfectly affordable to social tenants in Bulgaria and Hungary, and in all cases in Romania, where its legal limit is ten percent of the household's income. Utility costs on the other hand may be as high, or

even higher, than the rent; some social housing providers reported cases where utility costs alone took up as much as sixty percent of the tenants' monthly income during the winter months. Therefore utility arrears are a major issue in all three countries' social housing stock.

Utility arrears could often lead to late payment in other areas. Utility providers could discontinue service after three consecutive months of non-payment, while social tenants enjoy relatively high tenure security in a social rental unit. Therefore if a social tenant finds herself in a situation where she can only pay some of her bills, she is incentivized to pay utility bills, and be late with the rent instead. In this case it is the larger security guaranteed by the social rental tenure which further undermines the social housing stock's financial sustainability from the point of view of the landlord.

Rent subsidies for low income tenants are atypical in all three countries. Low income households often receive (very modest) subsidies on the basis of their social and/or income situation, but not directly for housing. In fact social housing tenants never receive housing subsidies, as they are not the owner of their dwellings. In Hungary some municipalities provide rent subsidy to poor households to counterbalance the scarcity of social rental housing, but no rent allowance is provided on the national level.

4.3.3. Stability

In all three countries five year contracts are reported to be typical. In Bulgaria and Romania, renters usually have the possibility to renew their contract if they can justify that they are still eligible based on their income situation. Authors of the present text have information on a more diverse practice in Hungarian municipalities (which does not mean that similar practices are nonexistent in Bulgaria and Romania, but it may be more complicated to obtain credible information on them). Here, some municipalities set further criteria to contract renewal, like the absence of rent arrears towards the municipality, or utility arrears towards utility service providers; and in some cases municipalities may be more flexible with renters who do have an arrear, but are willing to cooperate. In some cases, the social landlord will unilaterally change the contract from indefinite to limited in time if the amount of rent arrear reaches a set level (based on the local municipal order regulating social tenancies); in more problematic cases the social landlord terminates the contract due to non-payment, and demands a 'user fee', which is higher than the rent.

Even with these taken into account, social rental is by far the most stable tenure form for low income households that do manage to obtain a rental unit despite severe shortage in all three countries. In all cases, tenants have a guarantee to stay in the dwelling as long as they respect the contract, in a stark contrast to private rentals. In fact, tenants very often have a possibility to stay in the dwelling even if they have trouble paying the rent on time; and social landlords will usually try to help them find a solutions as long as there is a chance that the tenants will continue to cooperate (particularly they seem willing to pay the missed rent later). On the other hand, there are no meaningful social defences if the case of a tenant has come to eviction. In Hungary and Romania tenants are automatically protected from being evicted during the winter months; in Bulgaria such rules depend on the municipal ordinance. Given the shortage of social housing and

the similarly vulnerable status of the other (numerous) prospective social renters, social landlords have little motivation to further protect renters who have come to the point of eviction.

An adverse effect of tenure stability combined with very low rent levels in all three countries is that a huge share of social tenants has varying levels of arrears in all three countries. As pointed out earlier on multiple points, social housing is already financially unsustainable for municipalities as rental incomes do not cover the required expenses, and no central budget support is available for this purpose; and rent and utility arrears further exacerbates this issue. On the whole, municipalities have no real interest in maintaining their social housing stock, while have strong incentives to sell what is left of it. Decision makers on the local level usually provide an option for tenants to buy their dwelling, although its conditions may vary (tenants could receive different levels of discount from the market value; or have to justify a required length of time spent in the housing unit they intend to buy). This leads to an ever shrinking supply of social housing, which is rarely discouraged by higher (urban or regional or national) policies aimed at preventing the further decrease of the social rental stock.

4.3.4. Flexibility

In principle, public task tenancy is very flexible in as much as unilateral notice by the tenant is always acceptable. Due to the heavy demand for municipal rental housing, there is not much point in introducing restrictions for tenants in leaving a municipally owned rental unit. This does not typically happen in practice, though. Although the possibility is there, social housing in Bulgaria as well as in Hungary and Romania is the second most stable tenure form after owner occupation, and once a social tenant secured a rental unit, they will hold on to it as long as possible; and the typical low income municipal tenant can hardly ever afford to obtain home ownership.

The regulation of non-abusive subletting is fairly restrictive in all of the three countries: it is never acceptable without the prior consent of the landlords, and even then only with strict conditions. In Bulgaria, most municipal regulations explicitly forbid subletting, and social tenants may be evicted and fined if they take in a sub-tenant; although this may vary geographically, due to municipalities' wide range of freedom in defining their own real estate and tenancy regulations. In Hungary, subletting a public rental dwelling is typically only acceptable with the consent of the landlord.¹² In Romania, the otherwise more strictly regulated municipalities' are free to establish local regulations in this regard, but in practice they will typically stick to permitting subletting only with prior written permission and under the conditions established by the owner.

¹² A municipal tenant can accommodate (as co-tenant) her spouse, parent, child, and/or the accommodated child's child in the dwelling without the consent of the landlord, and other persons that may be accommodated are defined in the municipalities' order on municipal real estate and tenancies. However, this is not considered a form of sub-letting.

5. Conclusion

A shared state socialist past between 1945 and 1989, as well as partially path-dependent transition and a shared ambition to join the European Union, has resulted in quite similar welfare and housing outcomes in Bulgaria, Hungary and Romania – at least in a wider European comparison. Despite the differences in the origins and early influences of their legal systems, the development of their legal environments had to respond to fairly similar social and economic challenges. Although many of their economic and social policies have been different both before and after the transition, and to this day they show diverging levels of development, the key outcomes relevant to housing and particularly to tenancy, remained very similar.

5.1 Historical overview

The level of communist state control over societies under and housing systems varied, but in every case it was pervasive. Residential building soared to respond to intensive industrialisation. In the new urban industrial hubs, it was largely taken over by state owned companies, and was financed from the central budget. At the end of the communist era, the share of social rental housing was higher than ever in the history of these countries – and yet, even then it was not higher than the share of public task rentals in Western European countries. Despite the intensive state efforts in construction, sixty percent or more of new residential building was still carried out in the private sector, through self-financing and self-building, and it very often involved the help of family and friends (particularly in the rural areas).

Urbanisation rates, 1900-2000

	Bulgaria	Hungary	Romania
1900	20%	31%	16%
1945	24%	37%	22%
1990	67%	62%	54%
2000	75%	65%	53%

Source: Sillince, 1990; Wikipedia; Hungarian Statistical Office

As communist principle was antagonistic to profitmaking, private renting was lawed out in these societies, which in itself strongly distorts their tenure structures. However, massive need for rentals resulted in an underground (illegal) rental sector, which could take up as much as 20% of the urban housing stock. It was typically of poor quality, but expensive due to high demand. Although this sector remained illegal throughout the communist period, authorities seemed to look the other way when it came to informal renting. It probably represented a compromise of sorts: communist citizens could not legally pursue this profit seeking activity, but since the state was not prepared to house all these people, it rather chose to avoid triggering intensive social tension by effectively eradicating the sector.

The transition process began in 1989-1990, although some sectors of the economy saw significant liberalization as early as the 1980s. One of its initial and pervasive effects was the transitional recession, which, among other things, meant a drop in GDP levels

and in new housing construction. Policy reforms and economic restructuring began in the early 1990s in Hungary, where the transition process was relatively peaceful and followed a liberalization process in the 1980s. And yet the GDP level recovered to pre-transition levels only by the early 2000s. In the meantime, economic and political turmoil delayed reforms and restructuring by nearly a decade in Bulgaria and Romania.

A free housing market was put in place in all three countries, although at different paces. The mortgage market was developed with state assistance in Hungary from 2000, and took off on the mostly unsubsidized private markets by 2004; a similar process, although at a much lower rate, unfolded in Bulgaria and Romania. Nonetheless, by the early 2000s the three countries showed some signs of economic convergence, as the latter two countries eventually undertook the required economic reforms to prepare for their EU accession, while Hungary's growth was hindered by a series of irresponsible macroeconomic decisions. Eventually, all three were hardly hit by the Great Financial Crisis in 2008, and showed signs of a prolonged recession in the following years.

Housing construction already slowed down in the 1980s, and suffered more after the transition in all three countries. The development of the early 2000s was mostly undone by the GFC.

Housing construction (1,000 units), 1980-2011

	1980	1990	1993	1997	2002	2008	2011
Hungary	71,9	43,8	20,9	28,1	31,5	36,1	12,6
Bulgaria	74,4	26,0	11,0	7,5	6,2	20,9	14,0
Romania	73,3	49,1	30,7	31,5	28,0	68,2	45,4

Sources: National Statistical Offices, Housing Statistic for Europe, 2011, Sillince,1990

5.2. Current welfare and housing regimes

In our study, we analysed the context of residential renting of Bulgaria, Hungary, and Romania on three levels:

1. *Macroeconomic development*: all three countries went through a post-transitional crisis, after which they recovered and eventually joined the EU. However, they all are in a peripheral position within the EU; and as their economic growth never surpassed that of most other member states significantly and for a prolonged period, it is doubtful whether they are truly “catching up” to Western European economic performance. Development is marred by the difficulties of building democratic institutions and the rule of law; tax evasion and the informal sector play significant roles in all three countries, and it is unclear whether economic growth has truly translated into wages and living standards. Due to swiftly growing inequalities, a large portion in all three societies is worse off than they were before the transition, while elites have gained significant wealth, and living standards have improved for a fairly wide middle class. Nonetheless, Central and East European “middle classes” are hardly comparable to their Western counterparts; and they face dire difficulties when it comes to labour security, future pensions, tenure security (weakened even for homeowners if they have mortgage or utility arrears) and other factors affecting their long term prospects.

2. *Welfare regimes*: as a consequence of their communist history, social safety networks had a strong tradition in all three countries. They had to reduce welfare funding significantly in the decades after 1990 due to the pressure to create financially sustainable social care systems; but also because of limited resources, stemming from modest overall economic performance, as well as widespread informal sectors and tax evasion.
 - Adequate welfare response to social issues is also complicated by lack of reliable data on household incomes (again due to the large informal sectors, which could cover up to 20-30% of national GDPs).
 - Insufficient care is often completed by family help and intergenerational transfers, while individuals with no supportive family are more vulnerable to economic hardships. Homelessness have become a massive issues in all three countries after the transition, and experience shows that persons are much more likely to become homeless if they have no supportive family networks to fall back on.
 - Another major social problem of all three countries is the huge number of extremely poor persons within Roma ethnic groups, who often find themselves in urban as well as rural segregated areas with little to no social assistance, as welfare systems lack the resources as well as the ability to efficiently respond to their issues.
3. *Housing regimes*: in all three countries, current housing regimes are defined by the predominance of homeownership, which statistically covers around 90% of the housing stocks (ranging from 87% in Bulgaria to 96% in Romania).
 - A demographic decline characterised all three countries, although its rate has been different. Bulgaria's population dropped from cca. 9 million to around 7 million in two decades; outmigration and natural decrease in population in Romania was also significant. While it has been the lowest in Hungary, losing only about half a million people in 20 years, it gained impetus after the GFC. So despite the slowdown of construction, the share of empty dwellings had been on the rise in all three countries; and the declining population might also explain the low level of investment in housing.
 - The current legal and financial circumstances do not encourage private renting. Nevertheless, the private rental sector is present, and is much larger than what statistics suggest – and it is also largely informal.
 - Social housing was decimated by the massive privatization of public task housing: in the three countries, its share it was between two and four percent in 2011. The share of low income populations is obviously much higher than this, which means that the majority of poor people have to find market solutions to their housing needs, which only perpetuates their unfavourable situation. For the least well-off this often results in a sort of savage capitalism, well outside the safety of the national welfare systems, which are better equipped to respond to (lower) middle class issues.

5.3 Result of the analysis

A brief summary of the current state of affairs is that a functioning market economy, including a free housing market, has been established in all three countries. However, market correction mechanisms in welfare provision and housing need further reinforcement. Although they were harmonised to EU law in the accession process, housing was not a central issue of this process, and accordingly reform efforts were concentrated elsewhere. While the various sectors of housing were thoroughly liberalised after the transition, no detailed and adequate legislation was developed to enable to optimal functioning of the various housing subsectors. Housing policy outcomes in all three countries show that regulations are very liberal, to the extent that these fields could be considered *underregulated* compared to housing regimes in old EU member states.

The housing policy outcomes in all three countries can be characterised by a *distorted tenure structure*, where cca. 90% of all housing is recorded as owner occupied, while both private and social renting appears to be residualised. In this housing environment, official policy still widely supports homeownership, and the types of support and subsidy that require the most public resources are almost invariably pro-middle class (including mortgage loan subsidies, support for new housing construction, Bausparkasse type contract savings schemes etc.).

Public task rental really is tiny, between two and four percent in the three countries. The reasons for this were detailed extensively in the report, but to give a brief summary: after the transition, responsibility for social housing provision was delegated to local municipalities, together with a large and dilapidated housing stock, and virtually no central funding to maintain or renovate it. Social rents are very low, and social tenancies very stable, so municipalities are incentivized to get rid of rental housing, and preferably social renters too. In the end, they need to balance their obligation to provide social housing, and their pressure to create a sustainable housing and tenant portfolio.

Unlike social housing, the private rental sector is much larger than what the statistics show, albeit it is largely invisible due to its informal nature. Its size is hard to gauge, but field experience suggests that many housing units reported as owner occupied or vacant on Censuses is privately rented. Despite the simple, convenient and flexible nature of private renting, the unfavourable legal and financial environment keeps landlords and tenants off the market; landlords will only enter it if they can improve their margin by tax evasion, and for most tenants it is a temporary solution, or a last resort. As pointed out earlier, some of the most vulnerable groups must find a housing solution in the relatively costly private rental market, for the lack of other options. One noteworthy consequence of this situation is that professional (institutional) landlords are almost entirely missing from all three markets. Neither them, nor their tenants would not be eligible for any kind of support from the state or city, without which the average renter just cannot produce sufficient income as to make the sector lucrative for institutional investors.

For the same reason, the unfavourable environment for renting, “other tenure types” (such as building or tenant cooperatives, or any real intermediary tenures between renting and ownership) are almost entirely missing as well.

5.4. The future of the rental sector

A coherent housing policy or strategy – or the apparent political will to change the situation – has been missing so far in all three countries. Tenure security in private renting is weak, and the position of tenants in social renting has also been becoming looser in the past years. GFC and the resulting mortgage crisis has shown that even owner occupation may not be as stable as previously believed. The public perception of renting could change in the aftermath of the crisis, as it *might* change the tenure preference of households; but real changes in the sector can be expected only if the reforms in macro-economic sector, welfare regime and housing policy will take place.

Post-transition countries should probably adopt an economic development model that provides perspective for the younger generations, who could not profit from the massive privatisation at a discount of formerly state owned property, and then saw their opportunities narrowed by a steep rise in real estate prices, and later by the mortgage crisis. New member states should pursue a stable and sustainable macroeconomic development; steer their welfare regimes in a way that enables efficient management of the social consequences of the growing income inequality; and create a coherent housing policy framework that allows the efficient and fair use of housing sector resources. Among other things, this means the reconsideration of their current tax and subsidy frameworks, with a view to tenure neutrality, in order to counterbalance the current heavily skewed tenure structure.

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