

# Provision of affordable housing in Europe, North America and Central Asia: policies and practices

Prepared for the United Nations-HABITAT

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# Contents

## EXECUTIVE SUMMARY

### I INTRODUCTION

- 1 AFFORDABLE HOUSING FOR ALL: A CALL FOR ACTION
- 2 PURPOSE AND OBJECTIVES OF THE REPORT
- 3 METHODOLOGY

### II. FACTORS UNDERLYING DIFFERENCES IN HOUSING PROVISION

- 1 ECONOMIC CHANGE
- 2 SOCIAL CHANGE
- 3 URBAN CHANGE.

### III. HOUSING SYSTEMS AND HOUSING CONDITIONS

- 1 HOUSING CONDITIONS: QUANTITY AND DISTRIBUTION
- 2 HOUSING CONDITIONS: HOUSING QUALITY
- 3 TENURE STRUCTURE AND CHOICE
- 4 NEW HOUSING CONSTRUCTION
- 5 HOUSE PRICE DYNAMICS
- 6 SUBSTANDARD HOUSING AND INFORMAL SETTLEMENTS

### IV. HOUSING POLICY RESPONSES: PROVISION OF ADEQUATE AND AFFORDABLE HOUSING

- 1 THE NEW SUBSIDY REGIME AND AFFORDABILITY CONSTRAINTS
- 2 RESPONSES TO HOMELESSNESS AND THE REFUGEE CRISIS
- 3 LIMITED PROVISION OF SOCIAL HOUSING
- 4 ADDRESSING MANAGEMENT PROBLEMS IN PRIVATIZED MULTIFAMILY HOUSING
- 5 PROVISION OF AFFORDABLE HOUSING THROUGH URBAN REGENERATION

### V RECOMMENDATIONS

## ANNEX

## **EXECUTIVE SUMMARY**

This report provides an overview of progress achieved in the provision of affordable housing in the region of the United Nations Economic Commission for Europe (UNECE). Given the immense diversity of responses across the 56 countries in the region, the emphasis is on practices that are conducive to the provision of affordable land and housing. The report has three specific objectives. Firstly, it explores major regional trends in housing conditions with an emphasis on availability, quality and tenure choice. Secondly, it analyses housing policy responses to address major challenges such as growing affordability problems, access to social housing and improvement of substandard housing conditions. Thirdly, the report provides recommendations for local, national and international policy initiatives that could contribute to the provision of affordable housing in the region.

### **HOUSING SYSTEMS AND HOUSING CONDITIONS**

Housing reforms in the UNECE region in the past decade have promoted policies to reassert market forces and reduce State intervention. With respect to housing provision, they have emphasized deregulation, private sector involvement and demand-based subsidies. While the overall goal of these reforms has been to improve the economic and social efficiency of the housing systems, responses across the region demonstrate diversity and substantial differences in housing conditions.

**Availability of housing.** Housing conditions in most UNECE countries have improved in the last decade. The general ratio of dwellings per thousand inhabitants—a crude indicator of the adequacy of housing provision—varies, with Finland and France having the highest number of over 500 units per 1,000 residents, followed very closely by Greece, Sweden and Portugal. The countries in transition have lower levels, which despite their lower level of economic and social development, are nevertheless comparable to those in Western Europe. The number of dwellings per 1,000 people is lowest in Albania (254/1000) followed very closely by Poland (314/1000) and Slovakia (318/1000). Housing shortages across most countries in the region are often associated with particular housing types, locations and qualities than with the absolute shortage of housing in general. The question of *housing deficits*, particularly in CEE, has become less relevant to market realities. In fact, the housing surplus ranges from 786,000 units in Romania to 58,000 in Albania.

**Water and sanitation.** Access to water and adequate sanitation in the UNECE region is one of the highest in the world standing at 94 percent on average for water and 93 percent for sewer. Correspondingly, the share of housing serviced with piped water and sewer is reportedly much higher than in other global regions. Even allowing for definitional changes over time, the available data indicate overall housing improvement since the 1990s. However, the situation with CIS countries is particularly problematic in Moldova and Uzbekistan with water services available in one third of the stock. A limited share of the housing has bath/shower—Uzbekistan (13.3%), Bosnia and Herzegovina (22%), Kyrgyzstan (24%), Moldova and Turkmenistan (30%). Although urban areas reportedly have higher levels of service, close to 3 million people in European cities lack access to piped water and 8 million to sewer. In countries in transition, high connection rates do not necessarily mean good quality of services.

**Tenure choice.** Tenure choice is important for long-term housing market stability and access to adequate and affordable housing. Homeownership has grown steadily in most countries, particularly in those in transition. In most of the CEE and CIS countries, owner occupation

exceeds 90 percent, which is well above the 65 percent average in Western Europe. In fact, some of the poorest countries in the region have the highest rates of homeownership. Analysis of house price dynamics indicates that access to owner occupation has become more expensive, even if it might lead to significant financial benefits over the long term. In a number of countries like France, Germany, Canada and the United States a large share of private rental housing provides options for labour mobility. Tenure choices are much broader in Finland, Sweden, Austria and Denmark thanks to a balanced tenure structure offering a ladder of opportunities ranging from social to private renting to homeownership. By contrast, in several European countries the rental option is severely curtailed (Spain, Greece, Italy).

**Slums and informal settlements.** Estimates by UN-HABITAT indicate that about 10 percent of the urban population lives in slum conditions without access to basic services and/or in overcrowded dwellings. In Central Asia more than half of the urban population lives in slums. Elsewhere these rates are 30 percent for Moldova and 19 percent in Romania, Bosnia and Herzegovina, Croatia and Macedonia. Informal settlements have grown rapidly, particularly in the peri-urban areas of Albania, Serbia, Georgia and Azerbaijan becoming the home of millions of new residents.

## MAJOR CHALLENGES AND HOUSING POLICY RESPONSES

**The new subsidy regime and affordability constraints.** Under the new subsidy regime, *subsidies focus on owner-occupation*. Mortgage interest tax relief exists in Ireland, the Netherlands, the United States, the United Kingdom and Spain. France offers subsidies on savings schemes for many newly-built and renovated properties and provides a quarter of a million zero interest rate mortgages annually. Looking beyond this group, housing subsidies and tax breaks are common in Austria, Germany, Russia, Croatia, the Czech Republic, Hungary and Poland. The new subsidy schemes in CEE have been criticised for being particularly inefficient in targeting households in need and in supporting the most affluent housing consumers. Meanwhile, demand-based subsidies to low income renters have failed to keep pace with the rising housing costs. In most transition countries such assistance is non-existent and where it has been launched (e.g. The Czech Republic, Poland, Romania, Estonia and Latvia), it is inadequate.

*Affordability of housing remains the fastest-growing and most pervasive housing challenge in the UNECE region.* Housing costs have increased with significant implications for access to adequate and affordable housing, particularly for vulnerable groups. In four countries—Belgium, Spain, Portugal and Greece—a quarter of the households have significant financial difficulties due to housing costs; in Italy this share is 42 percent. While the data are limited, it appears that countries with higher homeownership rates and limited tenure choice tend to have a higher share of households experiencing affordability problems. Furthermore, the situation appears to be more problematic in urban areas where higher prices for housing and concentration of poverty create cumulative disadvantages.

**Homelessness and the refugee crisis.** Homelessness across the UNECE region is a serious challenge and a sign of major failure of welfare states to deliver affordable housing for all. The total estimate of the homeless population in Europe is close to 600, 000 with more than 60,000 people sleeping rough and another 400,000 in homeless shelters. Asylum seekers are another disadvantaged category accounting for over 105,000 in temporary shelters. Although the evidence for CEE countries suggests that homelessness is less significant in quantitative terms, Poland and Hungary seem to have a growing number of homeless people and rising demand for overnight shelters. In the United States more than 750,000 people are reported to be homeless in 2006. Across the region, internal displacement continues to be a major

problem directly related to housing in the Balkans, the Caucasus, Turkey and Cyprus, where the number of IDPs stands at 2.8 million. Serbia and Montenegro still host the largest number of refugees and IDPs in Europe, most of them living in substandard or informal housing.

**Limited provision of social housing.** While affordability constraints are growing, less social housing is being provided for low income households. In Canada and the United States a handful of local governments have had the political will to overcome some of the barriers to development of affordable housing and the prospects for a meaningful reduction in the number of households with growing affordability problems are dismal. In Western Europe, the data suggest that in countries where the sector is significant, there is an ongoing commitment to maintain adequate supply. Austria (30%), Denmark (20.7%) and Sweden (16%) have the highest rates of new social housing production, followed by Finland, UK and the Netherlands with rates in the range of 12 percent. Several transition countries (Poland, the Czech Republic and Slovakia) have initiated new social housing programs in recognition of their importance for marginalized groups in society.

**Land shortages for affordable housing.** The irreversible trends of urbanization and concentration of poverty in some cities have affected housing affordability as well as created significant shortages of land for affordable housing. While land for housing is mostly provided through the market with a variety of long-term urban planning strategies in place to ensure 20-25 year land supply for new housing, many high growth regions need coordinated planning by all levels of government in cooperation with civil society and commercial interests to respond to a deepening shortage of land for affordable housing. A number of regional and local governments have experimented with density bonusing, inclusionary zoning, land trusts and land lease arrangements to increase the availability of land supply for affordable (social) housing.

**Problematic management of privatized multifamily housing.** In the privatization aftermath, the management and rehabilitation of multifamily housing is potentially one of the largest problems facing municipalities in countries in transition, since failure to carry out repairs will result in massive structural problems in more than 40 percent of the urban housing stock. Recently, most countries have introduced laws to regulate the operation of homeowners' associations, but the implementation has been very slow and inadequate. The management of privatised multifamily housing faces three significant challenges—organisational, social and financial which need to be systematically addressed.

**Provision of affordable housing through urban regeneration.** A number of countries in the region address the provision of affordable and adequate housing through area-based urban renewal and regeneration programs. Local governments, working in partnership with non-profit housing providers and community groups, have experimented with inner city regeneration, brownfield and waterfront redevelopment schemes. The search for effective strategies for urban regeneration to create a social mix, increase the supply of affordable housing and facilitate investment and improvement of existing infrastructure has promoted new models and a new repertoire of planning instruments to deal with social inclusion.

# **I INTRODUCTION**

## **1 AFFORDABLE HOUSING FOR ALL: A CALL FOR ACTION**

This report provides an overview of progress achieved in the provision of affordable housing in the region of the United Nations Economic Commission for Europe. The overview is guided by the commitments in the UN Habitat Agenda and other regional housing policy initiatives. The UN Habitat Agenda adopted in 1996, and the *Declaration on cities and other human settlements in the new millennium* adopted by the Special session of the UN General Assembly in June 2001, reaffirm the commitment of Governments to ensure access to adequate housing. In the Habitat Agenda, the right to adequate housing means that “everyone will have adequate shelter that is healthy, safe, secure, accessible and affordable and that includes basic services, facilities and amenities, and will enjoy freedom from discrimination in housing and legal security of tenure”. In order to achieve this fundamental goal an emphasis was placed on collaboration between public and private actors and institutions and ‘enabling strategies’.

Within the UNECE region, The Council of Europe has emphasized the importance of the ‘enabling framework’ for housing policies of Member States. In the Revised European Social Charter of 1996 (Art. 31), a more concrete commitment is advocated: “With a view to ensuring the effective exercise of the right to housing, the Parties undertake to take measures designed: to promote access to housing of an adequate standard; to prevent and reduce homelessness with a view to its gradual elimination; to make the price of housing accessible to those without adequate resources”. Recently, the UNECE Committee on Housing and Land Management adopted a *Ministerial Declaration on Social and Economic Changes in Distressed Urban Areas (2006)* to foster a more strategic approach to the provision of adequate housing. The Council of Europe has recognized that the problems in transition economies need urgent attention, particularly with respect to the provision of affordable housing for the homeless, people with disabilities, ethnic minorities and the elderly (Council of Europe, 2002). In response to the global call for action, the European Union (EU) has established a favourable environment for cooperation with regard to the provision of adequate and affordable housing, while recognizing the diversity of housing systems and policy challenges in the member states.

Recently, the Executive Director of UN-HABITAT emphasised the necessity to undertake urgent measures at the international level through a global campaign for *decent and affordable housing*.<sup>1</sup> The overall goal of this campaign is to fight urban poverty and housing deprivation by mobilising concerted action to provide housing including: (i) eradicating slums in cities; (ii) reducing dilapidated and socially inadequate housing; and (iii) developing market mechanisms for building affordable and decent shelter for those in need. This is expected to contribute significantly to the achievement of the Millennium Development Goals, particularly Target 11 on slums. The conceptualization of such campaign is part of the policy discussion during the new *World Affordable Housing Day*.

## **2 PURPOSE AND OBJECTIVES OF THE REPORT**

The purpose of this report is to review housing conditions and policy responses to major housing challenges. Given the immense diversity of responses across the 56 countries in the UNECE region, the emphasis is on practices that are conducive to the provision of affordable

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<sup>1</sup> Dr. Anna K. Tibaijuka, Under-Secretary-General and Executive Director of UN-HABITAT, at the 21st Session of the Governing Council for UN-HABITAT, April 2007, Nairobi ([www.unhabitat.org](http://www.unhabitat.org)).

land and housing. The report has three specific objectives. Firstly, it explores major regional trends in housing conditions with an emphasis on availability, quality and tenure choice of housing in different housing systems. Secondly, it analyses housing policy responses to address major challenges such as growing affordability problems, access to social housing and improvement of substandard housing conditions. Particular emphasis is given to the urban dimension of affordability in the context of economic, social and political change. Thirdly, the report provides some recommendations for local, national and international policy initiatives that could contribute to the provision of affordable housing in the region.

The report is prepared for the *World Affordable Housing Day* and its first thematic session 'Policy Frameworks and Best Practices for Affordable Housing Delivery' in 2008. Furthermore, it is expected to contribute to the preparation of the new UN-HABITAT medium term strategic plan for 2008-2013.

### 3 METHODOLOGY

The analytical assessment is based on existing information from government reports, such as the most recent UN-HABITAT *Global Reports on Human Settlements and State of the World Cities Reports*. The analysis draws on comparative evaluations on the topic carried out by major international organizations and research institutes, the Housing Profiles and Land Reviews of the UNECE as well as country specific assessments of affordable housing alternatives. It incorporates statistics and housing indicators from officially published sources of information and international databases.

**Country groupings.** Efforts have been made to reflect the enormous heterogeneity in the UNECE region which has implications for the significant differences in the provision of housing and the types of housing policy responses. UNECE member countries include some of the richest economies in the world and some of the poorest nations; those with long and strong democratic traditions and others with newly emerging democratic regimes, those with the highest level of housing provision and those with the most significant housing problems mirrored in housing deprivation and homelessness. These immense differences have a profound effect on the housing systems in these countries, making such comparative evaluation extremely difficult. Where possible, housing challenges and policy responses are reviewed on a subregional basis using three clusters: (i) Western Europe and North America, (ii) Central and Eastern Europe (CEE) and (iii) the Commonwealth of Independent States (CIS) including the following countries:

➤ **Western Europe and North America**

Andorra, Austria, Belgium, Canada, Cyprus, Denmark, Finland, France, Greece, Iceland, Ireland, Israel, Italy, Germany, Luxembourg, Malta, Monaco, Netherlands, Norway, Portugal, San Marino, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States.

➤ **Central and Eastern Europe**

Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Latvia, Hungary, Republic of Macedonia, Lithuania, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia.

➤ **Commonwealth of Independent States**

Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine.

Although some information on housing conditions in the Russian Federation is included for comparative purposes, the overview of housing policy excludes Russian reforms covered in a separate study as well as issues pertaining to housing finance.

**Data sources.** The data used in this report draw on country-specific information on housing conditions, housing production and housing market dynamics. Most countries in the UNECE region monitor housing conditions and housing market performance at the national, regional and local level through census data collection and specialized housing surveys. Basic statistical data are gathered on buildings (including type, size and year of construction, heating and type of energy) and dwellings (including size, technical services, utilities, tenure, price and/or rent). Results from these survey instruments provide most of the key statistics necessary to monitor the performance of housing systems and to ensure adequate policy responses<sup>2</sup>

The experience of most countries in the region indicates that national census is carried out every ten years, Germany and the Netherlands have a census every four years, Canada and the United States—every five. Within the EU, Ministries collaborate to produce an annual edition of *Housing Statistics in the European Union*. Data are provided by national ministries responsible for housing well as by the European Mortgage Federation and Eurostat. These reports are a major source of the comparative data used in this study.

In addition to census data, most countries in Western Europe and North America have specialised surveys providing much-needed information on affordability of housing. In *France*, Enquête Logement is undertaken every four or five years. In the *Netherlands*, the Housing Quality Survey conducted every five years is a major source of information defining policy priorities and alternative courses of action. In the *United Kingdom*, house condition surveys carried out in England, Wales, and Scotland every five years provide essential information on households occupying different sectors of the stock. In addition, regular information on house prices in the EU countries is collected through the survey of mortgage lenders, while in North America the information on house process is derived from the multiple listing services.

By contrast, most countries in *Central and Eastern Europe* have only census-based information with limited indicators, which is complemented by annual data on housing production. Essential information on the affordability of housing is non-existent and data on house prices and rents are sketchy at best. The situation in the *Commonwealth of Independent States* is even more challenging since the official statistics on housing include a handful of monitoring indicators. Furthermore, reporting on housing availability is still done in square meters of housing, which does not allow a good understanding of the basic distribution of housing units vs. households in local and national housing markets. Access to reliable data is more problematic, making the comparative analysis in this report particularly challenging.

**Report structure.** The document's structure corresponds to the major clusters selected for discussion at the *World Affordable Housing Day* Forum in Russia. The first part provides an overview of global and regional commitments to the provision of affordable housing as well as the objectives and methodology of this report. The second part highlights major economic, social and urban factors in the region underlying differences in housing provision and specific housing challenges. The third section systematically reviews trends in housing conditions with respect to availability of housing, different types of homes, tenure choice and trends in new housing production. The emphasis is on differences and similarities in housing conditions and

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<sup>2</sup> In Canada, for example, in addition to the Census, *Starts & Completions Survey, Market Absorption and Rental Market Surveys* are carried out on an annual basis in urban areas.

on persisting problems with housing deficits, substandard housing and informal settlements. The fourth section provides the critical linkages between housing challenges and policy responses in different countries across the region. It focuses on six important themes: (i) growing shortages of affordable housing; (ii) homelessness and the refugee crisis; (iii) limited social housing provision; (iv) access to land for affordable housing; (v) problematic management of privatised public housing; and (vi) provision of affordable housing through area-based renewal and social inclusion. The analysis highlights major achievements in addressing the multiple dimensions of affordable housing provision. Finally, the conclusions revisit some of the major themes and draw attention to alternatives for local, national and global action.

## **II. FACTORS UNDERLYING DIFFERENCES IN HOUSING PROVISION**

Countries in the UNECE region have a range of different housing provision systems. This legacy is an important determinant of housing conditions and access to affordable housing. While the legacy is critical, housing policy responses in the last decade need to be reviewed in the context of economic, social and urban change. These drivers of change in regional housing submarkets increasingly map a diverse set of housing challenges and housing policy trajectory across the UNECE region. In the economic realm, countries with traditional market economies have experienced a strong economic growth and major progress in their structural reform agenda in the past decade. The growth trajectory has been uneven, but it has delivered better living standards in Western Europe, North America and some of the Central European countries. On the social side, there has been some progress in the design of better social protection systems and in the provision of social services. Despite these gains, poverty has become a significant social and political challenge.

The following sections will focus on some of the major aspects of change underlying the differences in housing policy responses and reforms.

### **1 ECONOMIC CHANGE**

The recent expansion of the European Union with ten more countries in 2005 and another two in 2007 has provided a major boost for better economic performance in the new accession States. Macroeconomic data indicate that growth prospects in the Euro area are modest with the loss of momentum more apparent in the biggest economies—Germany and France. Recent data indicate that average income per capita, measured in purchasing power parity, in Western Europe is US\$ 25,000, while in CIS it tends to be as low as US\$2,500 (UNECE, 2007). Rates of gross domestic product (GDP) growth in 2005 across Western Europe are in the range of 1%, with a high economic performance in Greece and Ireland (3.3%). The fastest growing economies are Latvia (10.2%), Turkmenistan (9.6%), and Kazakhstan (9.7%). Structural adjustment policies and economic restructuring have created significant challenges for particular groups such as the long-term unemployed, low-skilled workers and young people with limited work experience (EBRD, 2006).

The benefits of growth have not been shared widely across the UNECE region. Income polarization has increased, perhaps more dramatically in countries in transition, and unemployment has remained considerably high. In Spain, Greece and Estonia, the income of the top quintile is 6 times higher than the income of the bottom quintile. By contrast, in Slovenia, Sweden and Denmark this ratio is 1 to 3. This is a major source of social inequality, which paralleled with unemployment creates major challenges for social sustainability. The average level of unemployment has remained higher in Central and Eastern Europe (12.7%) and in Western Europe (7.6%). Poland and Slovakia have levels of unemployment in the range of 17%. North America has experienced years of jobless recovery, while unemployment

in the CIS has remained as low as 3.5%, although differences among countries have become more significant due to different structural adjustment policies (UNECE 2007). The differences in economic performance across the ECE region affects the housing demand, interest rates, and is perhaps more visible in the level of new housing provision,

## 2 SOCIAL CHANGE

Population growth in the region has remained modest – less than 0.5% in Western Europe and 3% in North America, mostly attributed to immigration. The countries in transition have experienced years of negative population growth, a result of emigration, lower reproduction rates and responses to economic hardship. While demographic developments are relatively stable across the UNECE, poverty has increased. The reality of over 74 million people in the European Union living at risk of poverty in 2005, with one in six people experiencing poverty after social transfers, has become a significant social and political challenge (Eurostat, 2007).<sup>3</sup> Groups at risk are the long-term unemployed, large or one-parent families, people with a low level of education, also increasingly ethnic minorities, with particularly deep pockets of poverty among Roma communities. Some of the common drivers are unemployment or jobless growth, but also regional inequalities and inadequacy of the social protection systems (European Commission, 2004, Edgar and Meert, 2003).

The dimensions of poverty in CIS are quite different. The subregion accounts for the largest share of people living in absolute poverty. *While at the start of the reform poverty in countries in transition did not exist in the present sense of the concept, today more than 100 million people are classified as poor* (WB 2002). The share of people living on less than US\$1 per day is alarmingly high in Armenia (12%), Uzbekistan (21%) and the Republic of Moldova (22%). The move towards a market economy and democracy has failed to deliver uniform benefits to all countries in transition and/or to all social groups. It is widely acknowledged that the second generation of policy reforms is driven by a more sober reflection that market failures need to be addressed more efficiently and that the social protection of vulnerable groups is perhaps the most important aspect of public policy intervention (UN-HABITAT, 2005b; 2007).

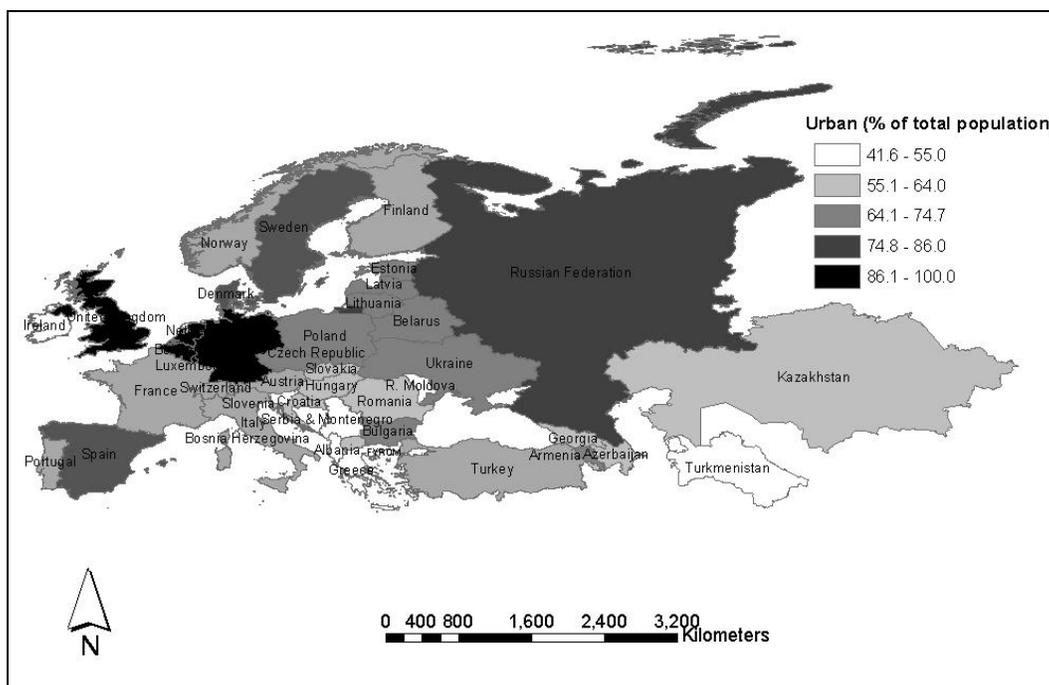
## 4 URBAN CHANGE.

The UNECE region is overwhelmingly urbanized, with more than 75 percent of the population concentrated in urban areas and a growing complexity of urban challenges. The level of urbanization in Western Europe is 80 percent, with the United Kingdom and Belgium exceeding 90 percent. In North America over 80 percent of the population is urbanised. The countries in transition have an average rate of urbanization close to 61 percent, which is considerably higher in the largest countries – the Russian Federation (73.3%), Poland (62%), the Czech Republic (74.5%) and Hungary (65.9%). These patterns are presented in Figure 1.

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<sup>3</sup> The top 20 percent of the EU-25 population received almost five times as much income as the bottom 20 percent of the population in 2004. The widest inequality was recorded in Portugal (7.2), while the Nordic Member States, the Czech Republic (2003), Hungary (2003) and Slovenia (2003) reported the lowest inequality ratios (between 3.1 and 3.5) (Eurostat, 2007).

Figure 1: Urbanization in UNECE region, 2005



Source: Based on data from UN-HABITAT, 2007.

With the exception of seven megacities -- New York, Los Angeles, Paris, Istanbul, Moscow, London, and Chicago-- the main cities in the region tend to be under 3 million with medium densities, and stable or low-growth population (growth rates under 1%). Annual urban growth rates in Italy, Portugal and Turkey are comparable to those in the United States and Canada and tend to gravitate close to 1.1-1.4 percent. However, in less urbanised countries, the projected annual urban growth in Albania, Azerbaijan, Tajikistan and Uzbekistan exceeds the range of 2 percent and higher.

These high levels of urbanization create significant challenges for the provision of affordable housing in large cities. Despite the notable economic success of major urban centres in the UNECE region today, globalization has exacerbated social polarization and urban poverty. In the countries in transition, the reforms from centrally planned to market-based economies have added another layer of complexity. In many of these places the decline in living conditions is accompanied by rapid deterioration of existing housing, homelessness and formation of informal settlements in peri-urban areas in countries with rapid urbanisation (UN-HABITAT, 2005a; 2005c; 2007). *The urban poor are especially vulnerable to economic shocks; they lack access to services, safety nets and political representation. Cumulative disadvantages, often defined along the lines of gender, age and ethnicity, create widening social differences between social groups, with low-income, single-parent or women-led households worst off.*

In addition to housing challenges associated with urbanization and poverty, many countries in the UNECE region are affected by war or civil conflicts. Almost 7 million have become refugees or are internally displaced. Military conflict and violence in the Balkans and Northern Caucasus has caused long-term stress for the housing systems of these countries. Displaced people as a result of conflicts in Bosnia and Herzegovina are estimated to be 2.5 million and in Serbia and Montenegro alone over 1 million.

### **III. HOUSING SYSTEMS AND HOUSING CONDITIONS**

Housing reforms in the UNECE region in the past decade have promoted policies to reassert market forces and reduce State intervention. With respect to housing provision, they have emphasized deregulation, private sector involvement and demand-based subsidies. While the overall goal of these reforms has been to improve the economic and social efficiency of the housing systems, responses across the region demonstrate diversity. Recent comparative studies based on the evaluation of experiences in Western and Eastern Europe have advanced the thesis of policy divergence, convergence and collapse (Angel, 2000; Boelhouwer and Heijden, 1992; Doling, 1997 and Pishler-Milanovitch 2001).

Differences in housing condition across countries reflect the legacy of past policies, institutional division of responsibilities for the provision of affordable housing as well as housing preferences and choices. The analysis in this section provides a quantitative and qualitative overview of major characteristics of the existing housing systems based on most recent data available. A particular emphasis is placed on differences and similarities in housing distribution, level of service provision (water, sewer, central heating), dominant building types (single family, multi-family, high rise, etc.), and tenure choice. These quantitative and qualitative indicators are related to some recent information on housing market performance demonstrated by dynamics in house prices and rents. A special section provides insights into critical housing problems such as substandard housing, slums and informal settlements.

#### **1 HOUSING CONDITIONS: QUANTITY AND DISTRIBUTION**

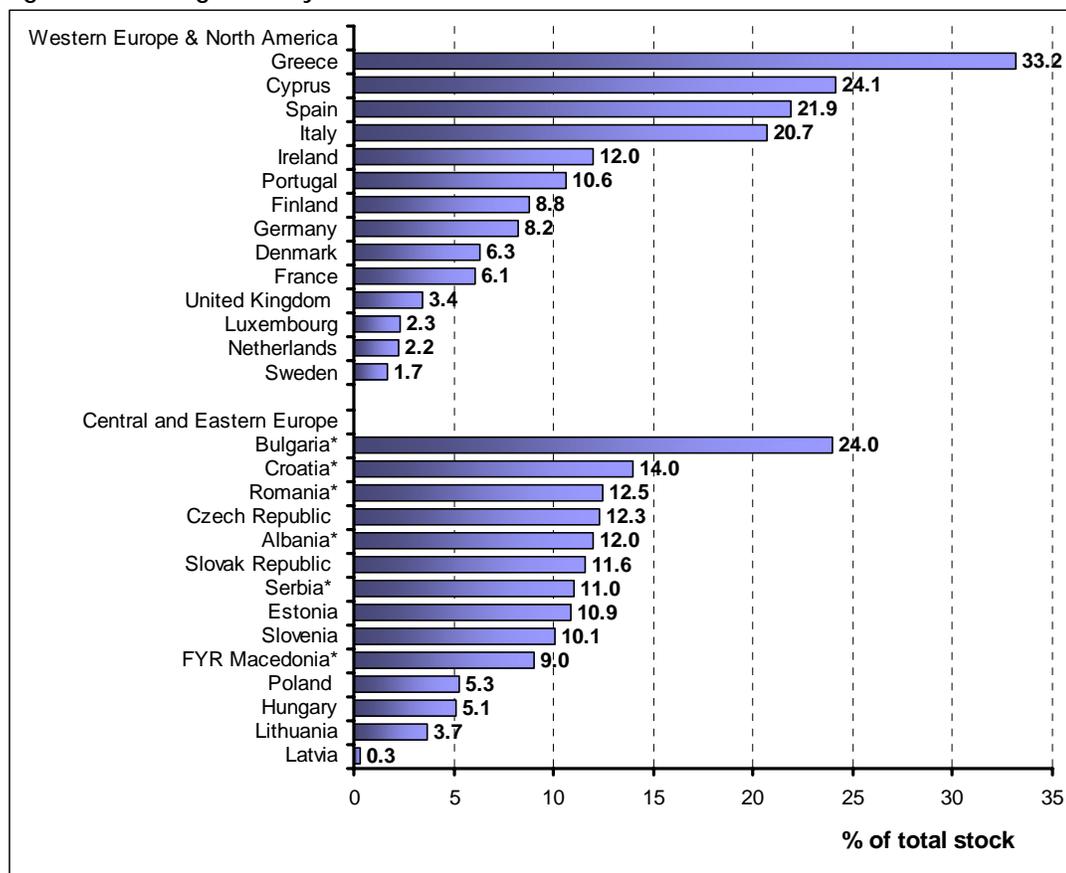
**Availability of housing.** Housing conditions in most UNECE countries have improved in the last decade. The general ratio of dwellings per thousand inhabitants is normally used as a crude indicator of the adequacy of housing provision. The distribution varies, with Finland and France having the highest number of over 500 units per 1,000 residents, followed very closely by Greece, Sweden and Portugal. The countries in transition have lower levels, which despite their lower level of economic and social development, are nevertheless comparable to those in Western Europe. Data in the Annex illustrate these patterns in selected countries. The number of dwellings per 1,000 people is lowest in Albania (254/1000) followed very closely by Poland (314/1000) and Slovakia (318/1000). Although average dwellings in CEE countries tend to be 25 percent smaller than in Western Europe, the average distribution in terms of persons/per dwelling are similar. Overall, the legacy of the socialist housing provision system has ensured a relatively higher availability of housing than could be expected given the present level of economic development. Presently, the GDP per capita in the subregion is one third of the GDP average in the EU, which affects the amount of investment available for improvement in housing conditions.

**Housing deficit and surplus.** Housing shortages across most countries in the UNECE region are often associated with particular housing types, locations and qualities than the absolute shortage of housing in general. The question of housing deficits, particularly in Central and Eastern Europe, has become less relevant to market realities. Declining population, emigration and changing consumer preferences as well as ability to pay have shaped housing demand in the last fifteen years. Studies point to excessive supply of housing, such as small, old-style, poorly located flats, while another—particularly single-family housing in good locations—is in chronic shortage (Hegedus et al, 1996; Buckley and Tsenkova, 2001). The existence of such housing submarkets and the spread-out urban geography of larger countries such as Poland, Russia, Ukraine and Romania can make reliance on aggregate average housing indicators misleading in understanding real housing experiences.

Many countries in the region have a surplus of housing, particularly in Western Europe. For example, close to 1 million dwellings in the eastern part of Germany, extensively renovated after the unification, are vacant. A third will be demolished by 2009 under a new €3 billion neighbourhood upgrading programme. Similar measures, although on a much smaller scale are underway in the Netherlands, Denmark and the United Kingdom (RICS, 2007). In Central and Eastern Europe, despite the popular myths of housing deficits, the housing surplus ranges from 786,000 units in Romania to 58,000 in Albania. In terms of its share of the total stock, most countries in South Eastern Europe have a surplus in the range of 12-14 percent with Albania (7%) and Montenegro (24%) being the two extreme situations (Tsenkova, 2005). Local housing market mismatches pose an additional, often neglected quantitative problem. Despite the overall surplus of housing, the census data indicate that the capital cities in the region experience housing shortages and overcrowding. Dwellings on average tend to be small and often accommodate more than one household or the ratio of persons per room is higher than one. For example, in Serbia 18 percent of the households (about 284,000) are overcrowded. There are many cases with more than 3 occupants per room. Evidence from the census data in Albania, Bulgaria, Latvia, Ukraine and Romania indicate similar problems (ECE, 2002; 2005, Tsenkova and Turner, 2004). Part of this mismatch, and the deficit of affordable housing in high growth urban centers, are related to migration to places with more dynamic labour markets in pursuit of employment opportunities.

Another explanation for the deficit of affordable housing relates to the inefficient use of the existing housing stock. Data on vacancy rates in Figure 2 show that more than a quarter of the housing stock in Cyprus, Greece and Bulgaria is vacant. Vacancy rates in CEE countries are higher than those in Western Europe and range between 10-14 percent. This might be due to substandardness of housing and/or lack of demand in rural areas. In some countries—Albania, Bulgaria and Romania—high vacancy rates are reportedly due to immigration. Absentee homeowners often do not rent out these units, even in urban areas where demand is high. In countries affected by war, massive displacement of the population has resulted in higher vacancies in areas where people are reluctant to return (Leckie, 2002). Last but not least, second homes, which are not used for permanent habitation, are very important element of the housing markets in Croatia, Montenegro and Bulgaria, explaining the high vacancy rate and the surplus of housing in these countries. In Greece, Italy, France, the Netherlands and Spain between 10 and 15% of all dwellings are second homes (RICS, 2005).

Figure 2: Housing Vacancy Rates



Source: Author's estimates based on data in Mollr, 2006 and Tsenkova, 2005.

In *Central Asian countries* there is evidence of absolute shortages/deficits of housing at the national level and in particular in the capital cities. These countries experience delayed urbanisation with rapid influx of rural population, which added to much stronger population growth rates of over 2 percent exacerbates the pressures on local housing markets. In Tajikistan, for example, population growth from 1998 to 2005 was 16.5 percent, while the growth in housing stock was only 9 percent. Housing area per capita at the end of 2005 was 8.7 square meters, which is 27.5% less than the norm of 12 square meters per capita established by the government. Similarly in Kyrgyzstan the population has grown from 4.7 million in 1997 to 5.1 million in 2005. Bishkek with 200,000 migrants from rural areas reportedly experiences acute housing shortages. In Dushanbe, the capital of Tajikistan, the city's population has reached close to 1 million due to rapid migration creating a potential deficit of 100,000 dwellings (IFC, 2006).

## 2 HOUSING CONDITIONS: HOUSING QUALITY

**Water and sanitation.** Access to water and adequate sanitation in the UNECE region is one of the highest in the world standing at 94 percent on average for water and 93 percent for sewer. Correspondingly, the share of housing serviced with piped water and sewer is reportedly much higher than in other global regions. Even allowing for definitional changes over time, the available data in Table 1 indicate overall housing improvement since the 1990s. However, the situation with piped water supply in the housing stock in CIS

**Table 1: Dwellings with Basic Services**

Country	Year	Bath/Shower	Piped water	Central Heating
<b>Western Europe &amp; North America</b>				
Austria	2003	98.3	100	90.0
Belgium	2001	96.0	100	73.0
Cyprus <sup>e</sup>	2001	99.0	na	27.3
Denmark	2005	95.0	100	98.2
Finland	2002	99.0	100	92.3
France	2002	98.0	92	91.0
Germany	2002	na	100	90.8
Greece	2001	97.8	na	62.0
Ireland	2002	94.0	na	89.0
Italy	2004	99.2	99.6	94.7
Luxembourg	2001	94.2	98	92.3
Malta	2000	100.0	92.9	3.3
Netherlands	2002	100.0	na	90.0
Poland <sup>c</sup>	2002	87.0	83.0	77.8
Portugal	2001	65.6	na	3.8
Spain	1999	99.0	39.7 <sup>a</sup>	9.4 <sup>a</sup>
Sweden	2005	100.0	100.0	100.0
United Kingdom <sup>d</sup>	2001	99.0	100.0	94.0
Canada	2001	97.0	100.0	
United States	2001	96.0	100.0	
<b>Central and Eastern Europe (g)</b>				
Albania	2002	55.1	55.1	1.0
Bosnia & Herzegovina	2002	22.0	73.7	3.3
Bulgaria	2001	81.1	81.1	16.8
Croatia	2001	92.8	93.7	3.6
Czech Republic <sup>b</sup>	2001	95.5	95.1	81.7
Estonia	2002	67.1	na	59.0
Hungary	2001	87.2	88.0	52.9
Latvia	2003	67.3	75.2 <sup>a</sup>	65.2
Lithuania	2003	69.6	58.4	71.6
FYR Macedonia	2001	59.8	85.6	8.6
Poland <sup>c</sup>	2002	87.0	83.0	77.8
Romania	2001	53.0	53.0	25.9
Slovak Republic <sup>f</sup>	2001	92.8	90.5	74.3
Slovenia	2004	92.3	na	79.1
Serbia	2001	85.0	89.4	21.2
<b>Commonwealth of Independent States (i)</b>				
Armenia	2002	86.0	98.0	81.0
Azerbaijan	2000	na	78.0	na
Belarus	2000	na	100.0	na
Georgia	2000	na	78.0	na
Kazakhstan	2000	na	90.0	
Kyrgyzstan	2001	24.0	40.0	29.1
R. Moldova	2002	30.9	36.5	30.8
Russian Federation	2001	64.0	74.0	75.0
Tajikistan	2000	na	60.0	na
Turkmenistan	1999	30.0	53.0	30.5
Ukraine	2000		98.0	15.4
Uzbekistan	1997	13.3	36.5	19.5

- Notes:
- a. 2001
  - b. Permanently occupied dwellings only, Population and Housing Census 1.3.2001
  - c. Occupied dwellings only, National Census of Population and Dwellings 2002
  - d. The figures only refer to England, not the whole UK
  - e. Occupied conventional dwellings (excl. not stated)
  - f. Permanently occupied dwellings only, Population and Housing Census 1.5.2001

**Source:** Federcansa, Italian Housing Federation, eds. (2006). *Housing Statistics in the European Union 2005/2006*.

Ministry of Infrastructure of the Italian Republic, p. 54.

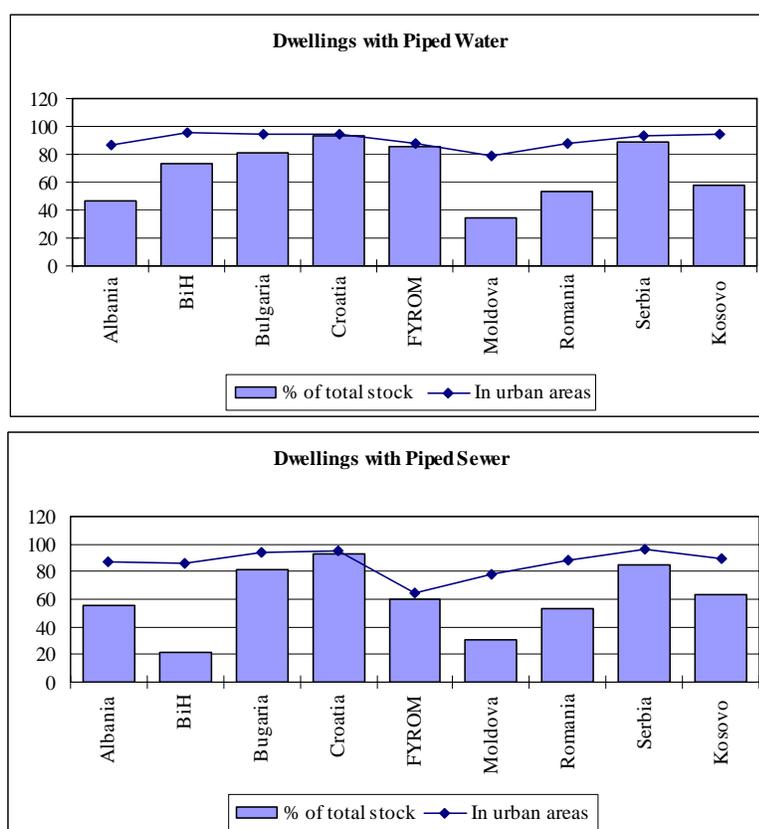
Data for CIS countries: Author's estimates based on UNECE database

Data for SEE countries: Tsenkova, 2005

countries is particularly problematic in Moldova and Uzbekistan with services available in one third of the stock. In CEE, Albania and Romania stand out with half of the housing lacking piped water. Although urban areas reportedly have higher levels of service, close to 3 million people in European cities lack access to piped water and 8 million to sewer (UN-HABITAT 2005). In countries in transition, high connection rates do not necessarily mean good quality of piped water since drinking water frequently fails to meet basic chemical standards.<sup>4</sup>

As in the case of water supply, sewer services are most problematic in Albania, Romania and CIS countries. The data indicate that a limited share of the housing has bath/shower—Uzbekistan (13.3%), Bosnia and Herzegovina (22%), Kyrgyzstan (24%), Moldova and Turkmenistan (30%). Urban-rural inequalities in sanitation are much more pronounced, particularly in South Eastern Europe and CIS countries. Cumulative shortages of financing for infrastructure development in rural areas during communism, coupled with scarcity of public resources in the last decade, have resulted in widening differences in access to basic infrastructure between urban and rural areas. Despite the growing rates of housing construction in rural communities, mostly through self-help, public and private investment has been unable to close the gap.

Figure -3: Dwellings serviced by water and sewer, 2002



Source: Tsenkova, 2005: Council of Europe Development Bank Regional Housing Survey

Data in Figure 3 present the pattern of urban-rural inequalities in nine countries in South Eastern Europe illustrating the difference in housing quality standards in rural and urban

<sup>4</sup> For example, substantial problems are known to exist in the water supply in Albania, the Republic of Moldova, Georgia, Kyrgyzstan and Ukraine related to poor quality and interrupted service. Sanitation is also problematic in Belarus, Georgia and the Russian federation where 15-22% of the samples do not meet chemical standards (WB 2005a).

areas. While the majority of the urban housing (80-98 percent) has piped water, two thirds of the dwellings in rural Moldova, Albania and Romania lack modern water and sewerage facilities. The comparative data suggest a backlog in the provision of sewer for close to 80-70 percent of the dwellings in Bosnia & Herzegovina and Moldova. In Albania and Romania 60 percent of the dwellings lack these essential services. Furthermore, the scarcity of resources for much-needed upgrades in the technical infrastructure has led to deterioration of existing networks and frequent disruption of services.

Supplying safe drinking water and adequate sanitation in the housing stock is therefore an important issue in many countries and requires explicit emphasis on quality. The problems are complicated by the inability of national governments, municipalities and municipal companies to ensure maintenance and investment in the existing systems. On the demand side, contracting incomes and growing poverty have prevented price adjustments to achieve cost recovery and to provide needed revenue (World Bank 2000; 2005a).

Another indicator which reflects the level of services in the housing stock is associated with *modern heating systems*. District heating is widely spread in Western Europe and a fair number of CEE countries where close to two thirds of the housing stock has access. Across the CIS as well as in South Eastern Europe, this share is much lower ranging between 16 to 30 percent. Overall access to centralized heating systems across the region is concentrated in the capital cities and some of largest urban centers.

**Age of housing and housing types.** Closely related to housing quality are the age characteristics of the housing stock. The available data indicate that most of the housing across the region was built after the Second World War, coinciding with urbanization and the growing affluence in these nations. The oldest part of the stock, built before 1919 in Western Europe is close to 18 percent, while in most transition countries it constitutes only about 4-5 percent of the total. Greece, Finland and Spain have half of the average share for Western Europe. Investment in housing provision during communism across the Soviet Union and Eastern Europe has resulted in waves of new construction, particularly in urban areas since the 1970s, to respond to urban growth. A principal feature of the socialist housing system was that new housing was built by state enterprises for rent or sale, while rural areas experienced growth in the production of single family self-built housing. The output from 1971 to 1989 was particularly significant in all countries with the exception of Poland, Slovenia, Romania and the Czech Republic, where the share of new construction between 1946 and 1970 played a more prominent role (UNECE, 2006, MolIR, 2006). Not surprisingly, housing production in the post-transition years added less than 10 percent to the housing stock in most countries in transition. Elsewhere in Europe countries such as Spain, Ireland and Cyprus stand out with high rates of construction adding more than 15 percent to the housing stock for the same period.

Several studies on housing in transition countries have pointed out two important aspects related to housing quality—the premature ageing of the housing stock and the dominance of multi-family panel apartment blocks in urban housing markets. While there is a lack of data for all of the countries, some recent censuses reveal that multi-family panel apartment blocks account for nearly half of the urban housing stock in Bulgaria, Romania, the Czech Republic and Moldova. Owing to industrialization and urbanization policies prefabricated housing dominates the residential landscape of post-communist cities. It makes up 70 percent of all housing in Bucharest, 45 percent in Sofia and 20 percent in Ljubljana (Tsenkova, 2006). Some countries in Western Europe also have a fair share of system built, panel housing, mostly a legacy of post war renewal and reconstruction efforts. Although its quality is substantially

better, this type of housing today is largely the target for demolitions and various urban regeneration schemes (Baucentrum International, 2004).

Multi-family housing is the predominant type across Western Europe and constitutes on average more than 47 percent of the total stock. United Kingdom, Ireland and Belgium are notable exceptions with less than 25 percent of their housing classified as multi-family. In Canada, multifamily housing is less than 12 percent concentrated in five large metropolitan areas. Some estimates, based on aggregated data from 2004, suggest that the share of dwellings in high rise housing with more than four storeys is significant only in Spain (30%), Italy (22.7%) and Portugal (22%). By contrast, in CEE countries the share of high rise housing exceeds 35 percent in Poland, Hungary and Slovakia (MolIR, 2006)

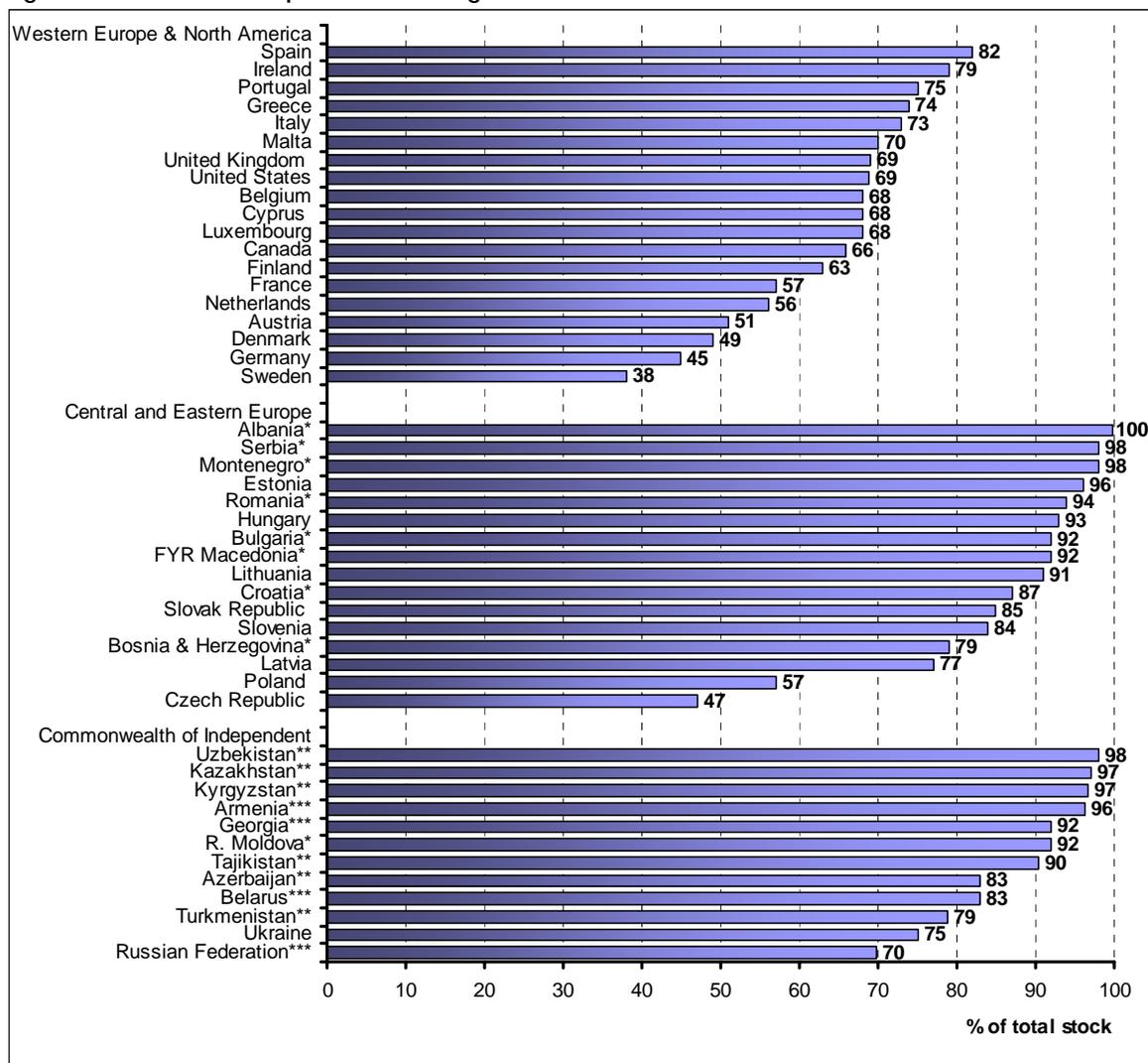
### 3 TENURE STRUCTURE AND CHOICE

Cross country comparisons on housing tenure are normally criticized for their broad brush approach which does not take into account differences concealed under the tenure label. This is certainly a concern of the countries in the UNECE region where the historical evolution of different housing provision systems has mapped a diverse tapestry of tenure patterns (Boelhouwer and Heijden, 1992; Doling, 1997). On the basis of processes and agencies related to the production, access, financing and consumption of housing, different forms can be identified: public and private rental, private owner-occupied (single family, condominium/equity cooperatives), and other categories related to housing owned by state institutions, tenant cooperatives, under restitution, etc. The division apparently accommodates a number of differences and conceals significant variations within one category. However, this is a common problem in cross-country comparison, which is difficult to overcome especially in transition countries. With the risk of simplifying a very complicated matter the analysis will focus on the main characteristics and common features of different forms of tenure. The available data on tenure distribution—1990 vs. 2004—in selected countries in the ECE region is presented in Table 2.

The most recent data identifies wide ranging differences across the region with respect to ownership of housing. Homeownership has grown steadily in most countries, particularly in those in transition. In most of the CEE and CIS countries, owner occupation exceeds 90 percent, which is well above the 65 percent average in Western Europe (Figure 4). In fact, some of the poorest countries in the UNECE region have the highest rates of homeownership. Although some of this housing might actually function as private rental, responding to pressures from migration and labour market adjustment, the tenure structure in the post-communist block is quite polarized leaving a small and residual sector of publicly owned social housing.

*Social or non-profit rental housing* is owned by local governments or social housing providers. Its share is significant in several countries in Western Europe (Austria, Finland, Sweden, and the Netherlands), while in Germany social housing is only 6% of the stock and is declining gradually through estate transfers. In most transition countries, social housing is not really defined in the legislation; however, public rental housing gradually assumes this function. Public housing is owned by local governments and is concentrated in urban areas. It is often funded with municipal or state/public enterprise funds and managed by municipal maintenance companies, which collect rents and handle tenant agreements. Rents are controlled and determined at the local level with some direction from central government (Lux, 2003). Bulgaria and BiH have a share close to 9 percent of the national stock, while in the

Figure 4: Homeownership in the ECE Region, 2004



Source: Author's estimates based on data from: MolIRC for EU-25, \*Tsenkova (2005) for SEE, \*\*UNECE database and Duncan, 2005 for CIS.

Table 2: Housing Tenure Change, 1990-2004

Country	1990				2004			
	R	OO	CO	O	R	OO	CO	O
<b>Western Europe &amp; North America</b>								
Austria <sup>a</sup>	41	55	na	4	41	51	na	9
Belgium <sup>a</sup>	33 <sup>b</sup>	67 <sup>b</sup>	na	0	32 <sup>c</sup>	38 <sup>c</sup>	na	2 <sup>b</sup>
Cyprus <sup>a</sup>	13 <sup>b</sup>	64 <sup>b</sup>	na	23 <sup>d</sup>	14	68	na	18
Denmark	40	54	5	1	38	49	7	6
Finland	25	72	0	3	33	63	0	4
France	39	54	na	7	40	57	0	3
Germany <sup>a</sup>	58 <sup>b</sup>	42 <sup>b</sup>	na	0 <sup>e</sup>	55 <sup>f</sup>	45 <sup>f</sup>	na	0 <sup>b</sup>
Greece	20	76 <sup>b</sup>	na	4	20 <sup>g</sup>	74 <sup>g</sup>	na	6 <sup>b</sup>
Ireland <sup>a</sup>	18 <sup>b</sup>	79 <sup>b</sup>	na	3 <sup>h</sup>	21	79	na	na
Italy <sup>a</sup>	25 <sup>b</sup>	68 <sup>b</sup>		6 <sup>b</sup>	19	73		9
Luxembourg	30	64	na	6	29	68	na	3
Malta <sup>a</sup>	na	na	na	na	26 <sup>b</sup>	70 <sup>b</sup>	na	4 <sup>b</sup>
Netherlands	55	45	na	0	44	56	na	0
Portugal <sup>a</sup>	28	67	na	5	21	75	na	4
Spain	15 <sup>b</sup>	78 <sup>b</sup>	na	7 <sup>b</sup>	11 <sup>b</sup>	82 <sup>b</sup>	na	7 <sup>b</sup>
Sweden <sup>a</sup>	44	39	17	0	45	38	17	0
United Kingdom <sup>a</sup>	35	65	na	0	31	69	na	0
<i>Western Europe</i>								
<i>Canada</i>								
<i>United States</i>								
<i>North America</i>								
<b>Central and Eastern Europe</b>								
Czech Republic <sup>a</sup>	40	38	19	3	29	47	17	7
Estonia	na	na	na	na	4	96	0	0
Hungary <sup>a</sup>	36	74	na	0	6	93	na	1
Latvia	79	21	na	0.0	19.0	77.0	4.0	na
Lithuania <sup>a</sup>	na	na	na	na	7.0	91.0	na	na
Poland <sup>a</sup>	na	na	na	na	25	57	18	0
Slovak Republic <sup>a</sup>	28	49	22	1	8	85	7	3
Slovenia <sup>a</sup>	na	61	na	39	9	84	na	7

Notes: R=Rent, OO=Owner-occupied, CO=Cooperative and O=Other

a. BE, IE: occupied dwellings; AT: annual average; principal dwellings

b. BE: 1981, 1991, 2002; CY: 1992, 2001; CZ: 1991, 2001; DE: 1993, 2002; ES: 1991, 2003; Ex-GDR: 1993, 2002; GR: 1991, 2001; FR: 1996, 2002; IE: 1997 (EU-SILC inquiry); MT: 2002; PT: 1991, 2001; SE: 2001

c. 1992: Households, 2001: Conventional dwellings

d. Excluding Ex-GDR

e. Fo 2000 Data Census 2001

f. Data Household Budgetary Survey 2000

g. Co-operative dwellings: Housing co-operatives based on tenant-ownership. A small fraction (<1% of total dwelling stock) consists of co-operative rental dwellings

h. Data 2004 source: Social Trends, No. 36, 2006 edition, Office for National Statistics

i. 2005 for 2004; 1995 = 1996 Micro census, 2003: Housing Survey

j. The rental category embraces the housing stock of co-operatives (so-called rental title) and employers; Dwellings owned by natural persons. Data on the base of current reporting; Co-operative dwelling: The category embraces the housing stock of co-operatives (ownership title only)

\*data refer to 2000

Source: Federcansa, Italian Housing Federation (2006). *Housing Statistics in the European Union 2005/2006*.

Czech Republic, Latvia, Poland, Russia and Ukraine this share tends to be higher than 20 percent (Tsenkova and Turner, 2004; World Bank, 2006b). Ongoing privatization continues to erode the public rental sector in all four countries, in addition to conversion of old style housing cooperatives into condominiums.

*Privatization of social housing* in several countries in Western Europe has supported the transfer of units to sitting tenants. Although the scale of this tenure transformation and pricing policies differ, the outcome in quantitative terms is more significant in the United Kingdom, where 2.16 million units have been privatized since 1989, the Netherlands (286,000 units) and Italy (130,000) (MolIR, 2006). By contrast, in transition countries the privatization of housing was the flagship of the reform process leading to significant transfers of public housing over the same period—Poland (1.4 million dwellings), Latvia (410,000), and the Slovak Republic (327,5000). Reform strategies in transition countries mainly differ with respect to the price at which dwellings were sold to existing tenants. They can be grouped into the following categories: voucher privatization (BiH, Latvia, Lithuania), privatization free of charge (Albania, Armenia, Moldova, Georgia, Kazakhstan, Russia), and low-price privatization typically at 10-15 percent of market value (Bulgaria, Romania, Serbia and Montenegro). The extent of sales has varied considerably both within and between countries. Notwithstanding these differences, several common problems emerged: (i) privatization progressed rapidly without the necessary institutional and legal framework for the effective management of multifamily housing; ii) the transfer of ownership rights in most countries was limited to the dwelling itself without the necessary provisions for the transfer of corresponding shares of common areas—land, building envelope, stairs, servicing areas; iii) privatization policies transferred substantial public assets to low income owners without the necessary resources to deal with the renovation backlog as well as with rapidly escalating maintenance costs (UNECE, 2003; UN-HABITAT, 2002b; Tsenkova, 2004).<sup>5</sup>

*Private rental housing* is particularly significant in Canada and US where it is close to 30 percent of the housing stock. In Germany, private renting is around the same size as owner occupation (over 45%), by far the highest share in Western Europe. The size of the private rental stock in Finland and Sweden is also significant, due to the tenure neutral housing policies pursued in these countries. Private renting has increased significantly in Central and Eastern Europe largely as a result of rent control elimination, privatization and restitution of public housing. Its share is particularly significant in Croatia and Former Yugoslav Republic of Macedonia (close to 11 and 9 percent respectively). The Czech Republic (7%) and Latvia (6%) have acquired a substantial share due to restitution policies. In the capital cities private renting is much more common, though mainly on an informal basis. For example, 28 percent of housing in Warsaw is privately rented, 5 percent in Bucharest, and close to 15 percent in Vilnius. Rents in the sector are determined by the market. Reportedly rental market pressures are considerably high in the capital cities and large urban centers where this type of housing is often sought by foreign diplomats, businesses and expatriates.

Despite these demand trends, in most countries in the UNECE region, private investors are still reluctant to get involved in new rental housing provision. Rental agreements, security of tenure and eviction procedures are specified in various legal acts. In North America and Western Europe, the private rental sector often provides a much-needed supply of affordable housing, particularly in the older parts of large urban centers. Low income renters in Canada,

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<sup>5</sup> In Albania, 98 percent of public housing was transferred to sitting tenants within one year by law. In Moldova, dwellings were privatized while the buildings remained under public ownership until 1997 when provisions were introduced to transfer building ownership to the recently established associations of homeowners. From 1992 to 2005, 62.5% of Azerbaijan's housing stock was privatized.

US, UK, Finland, Sweden and Germany are eligible to receive housing allowances. In Central and Eastern Europe, the sector is considered to be larger than official estimates, functioning to a large extent as part of the informal economy. Informality is encouraged to avoid rent regulations and landlord taxation (RICS, 2007; Registra et al, 2004).

*Owner-occupied housing* is dominant across the region, although its share in urban areas is much lower. While this might be the general rule, a fundamental distinguishing feature of housing markets in post-communist cities is the high rate of homeownership, often exceeding 90 percent (Tsenkova, 2006). In most capitals in CEE and CIS countries this tenure structure is the outcome of mass privatization (Tirana, Vilnius, and Tallinn), while in others (Sofia, Budapest, Belgrade); it simply reinforced existing patterns under State socialism. By contrast, the capitals in Western Europe have considerably lower rates of homeownership – London (58%), Helsinki (45%), Paris (28%), Vienna (17%) (City of Helsinki Urban Facts, 2002). Homeownership rates differ by dwelling type in different countries. For example, in Canada, Latvia, the Czech Republic, Hungary, Lithuania and Austria, ownership of single family homes is higher than ownership of multi-family housing. In the Netherlands, France, Germany and Ireland, apartment ownership is higher than 75 percent. It is difficult to identify the reasons for such differences, as this may be related to the degree of urbanisation, the quality of housing, and in more general terms the supply of new housing.

*Single-family owner-occupied housing* is dominant in smaller cities and rural areas. Usually referred to as self-help housing, this form of housing provision has a long tradition in Southern Europe. In a number of Western European countries (Germany, France, Greece, Spain) households acts as developers or promoters of their own housing, thus reducing the entry costs and controlling the quality of the final product. In Canada, US and the UK, the owner-occupied market for single family homes is controlled by large developers, operating on a regional and even international basis.

*Condominiums and equity cooperatives are another option for owner-occupation.* Owners have individual rights over the dwelling. Costs are lowered through collective ownership over the land, common elements and shared maintenance. There are significant variations in the quality, structure and type of condominiums (UN-HABITAT, 2002b; 2005a). Some are built using traditional construction methods with greater involvement of home owners through “building cooperatives” (Bulgaria, Croatia, and Serbia). Other condominiums have been developed by private or public construction enterprises in multi-family structures. In some countries, equity cooperatives were often constructed with some subsidies, but members’ rights can be bought and sold in the marketplace (e.g. Sweden, the Netherlands, and Slovakia). In the Czech Republic, equity coops account for 17 percent of the stock. The nature of condominium development and ownership requires a coordinated approach to management and systematic mobilization of financial contributions for maintenance over the lifecycle of buildings. While in Western Europe and the United States, condominiums are often managed by professional organizations with a strong emphasis on quality of maintenance services, in transition countries the lack of management experience, structural defects and poor services often plague the condominium segment of the housing market. Studies commonly refer to socially segregated homeowners in problematic housing estates of Budapest, Sofia, Bucharest and Chisinau (Baucentrum International, 2004, European Commission, 2004).

*Tenant cooperatives* are a hybrid between owning and renting. Often they operate with government subsidies, and can be allocated to any range of income groups, from people living in high quality inner city new built housing, to very poor people coming together to build houses by self help or mutual aid. Cooperative housing is neither rental housing nor individual ownership. Members of a cooperative have the right of occupancy of a particular unit. The

housing cooperative is a legal entity that owns the housing project, the land and improvement on it.<sup>6</sup> Each tenant member pays rent corresponding to the share of use of the common space. Right of occupancy agreement is signed between tenants and the management board of the cooperative. It specifies financial contributions, rights and responsibilities and the procedure that members will follow if they leave the cooperative. Tenants participate in the decision-making process and often contribute to housing management. The share of tenant cooperatives is relatively high in Denmark (6%), Poland (18%), Latvia (4%) and Slovakia (7%), although in the latter cooperatives are closer to the equity type of housing coop. In Germany tenant cooperatives, divided roughly 40-60 between East and West, account for 6 percent of the stock.

Tenant cooperatives have been an obvious target for privatization in most transition countries. The process has also progressed in Western Europe. These trends have been significant as indicated by the number of dwellings transferred into private ownership since 1989: The Netherlands (169,000), Finland (4,300), Slovakia (232,340), Sweden (11,614), and Poland (410,000 (MolIR, 2006).

**The importance of tenure choice.** Tenure choice is important for long-term housing market stability and access to adequate and affordable housing. Most countries in the region have a polarised tenure structure with excessively high share of owner occupation. Entry into owner occupation is expensive, even if it might lead to significant financial benefits over the long term. Households, particularly in the CIS, have limited resources to sustain their homeownership status acquired through privatisation or during state socialism under a universal subsidy regime. With few alternative options, new households may be pushed into owner occupation when financially stretched. In a number of countries like France, Germany, Canada and the United States a large share of private rental housing provides options for labour mobility. Tenure choices are much broader in Finland, Sweden, Austria and Denmark thanks to a balanced tenure structure offering a ladder of opportunities ranging from social to private renting to homeownership. By contrast, in several European countries the rental option is severely curtailed (Spain, Greece, Italy). Households have to rely almost solely on access to affordable housing finance, intergenerational transfer of wealth and often delayed entry to homeownership and the opportunity for a decent rental home. The rental sector in some countries in CIS is non-existent and in CEE remains in a handful of countries where the ongoing privatisation continues to reduce its share.

#### 4 NEW HOUSING CONSTRUCTION

The provision of new housing across the UNECE region is dominated by private sector output and investment. Most of the new housing (over 80 percent) is produced by private developers with a significant share of single family housing, particularly in Central and Eastern Europe. For example, in Latvia single family homes account for 99 percent of new construction and 68 percent in Slovenia. This change might reflect pent-up consumer demand as well as the resurgence in self-promoted/self-help housing. The shift from publicly dominated housing supply in transition countries to a housing provision system based on demand and actual costs to consumers has affected new construction in the last fifteen years. On one hand, new actors and institutions have emerged, public/private partnerships have become more prominent and a robust private sector has continued to be the main mechanism for the provision of housing services. On the other hand, rates of housing construction have reached historically low levels with considerable loss of residential capital due to subsidy cuts and macroeconomic adjustment. Available data on new housing construction in select countries in the region are presented in Annex 4. Construction rates in numbers of dwellings per 1,000 residents in 1990 and 2004

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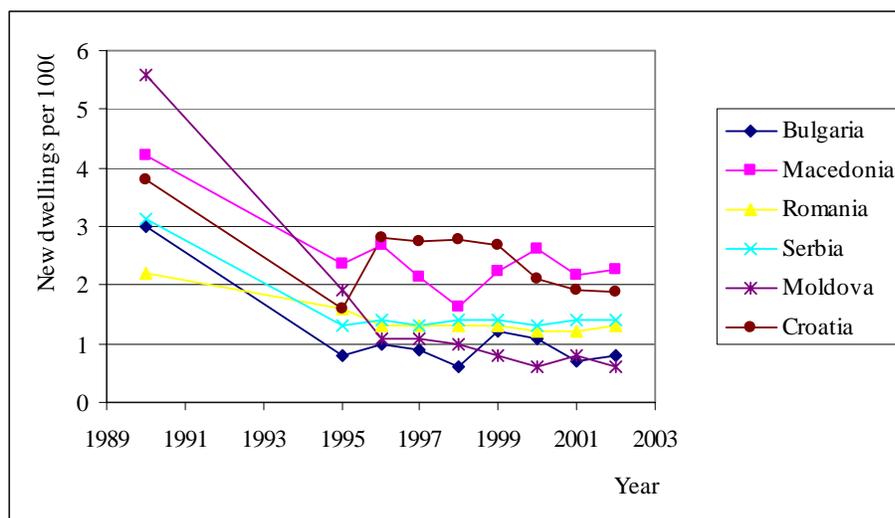
<sup>6</sup> Cooperative Housing Federation: *Housing Practitioners Handbook*, 2004.

indicate that new housing construction in Western Europe has remained stable in most countries with the exception of Ireland and Spain, where rates have doubled. A decline in the range of 20-25 percent is observed in Sweden, Italy, Finland and the Netherlands, although these might be just temporary adjustments.

Another important feature is related to the shift from new housing construction to renovation and rehabilitation of existing housing. Though production and investment in housing has declined, evidence from Canada, the Netherlands, United Kingdom, France and Germany suggests that private investment in improvement of existing housing has increased (most of the lending activity refers to these types of loans), which might be offsetting declines in new construction to a considerable degree.

**Subregional patterns: signs of recovery** In transition countries different subregional patterns emerge. Housing construction is showing signs of recovery, particularly in CEE reflecting macroeconomic stability, rising consumer confidence and availability of mortgage credit. In South Eastern Europe, the level of new production is around half of the level in the 1990's. Private developers continue to face financial difficulties, high inflation and a lack of adequate credit supply. With few exceptions, mortgage lenders have been reluctant to introduce alternative mortgage instruments more suitable to inflationary environments, although recent developments in Bulgaria and Romania suggest a rapid growth in mortgage lending and greater diversity of mortgage products. Despite the general picture of recession in new housing construction, the time series data illustrate significant differences. Rates of housing production are relatively stable across the subregion and twice as high in Former Yugoslav Republic of Macedonia and Croatia (Figure 5).

Figure 5 Rates of new construction in South Eastern Europe



Source: Tsenkova, 2005: Council of Europe Development Bank Regional Housing Survey

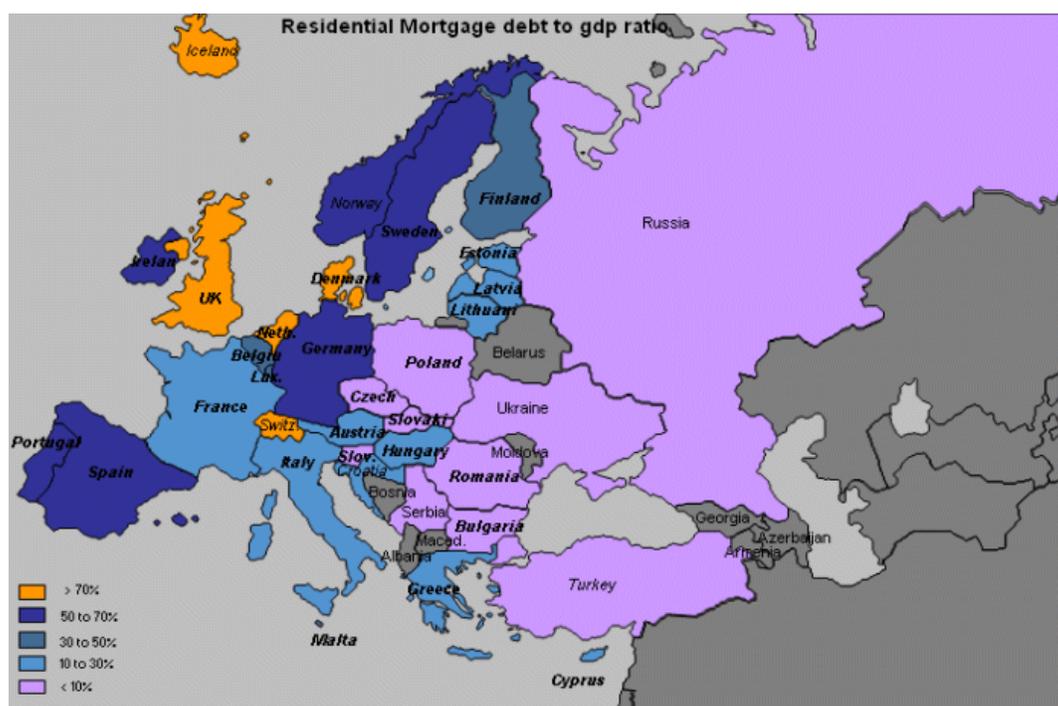
The impact of the turbulent economic and social transition on housing output in *CIS countries* is much greater. Lower GDP growth, persistently high inflation and low level of public investment have reduced housing output to half of its level in the early 1990s. For example, in Azerbaijan output in 2002 was 50 percent of the 1993 level, in Kazakhstan (23%), in Turkmenistan (80%) in Ukraine and Moldova (35%) and in Georgia (40%) (Duncan, 2005).

Although systematic data on rates of housing construction in the CIS countries is lacking, residential construction has grown steadily since 1997. In Central Asia the volume of new

housing construction has tripled since 2003 albeit from a very low level. For example, in Azerbaijan new housing construction has increased from 560,000 square meters in 2001 to about 1.4 million square meters in 2005 with half of that concentrated in Baku. In 2005 alone, new housing completions led to an increase of 1.5% in the housing stock. In Kazakhstan new housing construction in 2002 was 1.5 million square meters and reached 5 million in 2005, partly fuelled by some government programs accounting for 25 percent of the output (IFC, 2006). Growing housing demand, remittances and improved income prospects seem to be the driving forces behind the change.

**Availability of credit.** New housing construction is quite sensitive to changes in housing demand and macroeconomic conditions. As it is mostly provided by private developers and financed by individual households, the availability of mortgage finance has a critical impact on rates of housing production and growth.

Figure 6 Mortgage lending as a share of GDP in the ECE Region, 2005



Source: European Mortgage Federation, 2007

Mortgage lending in Western Europe and North America has increased significantly in recent years. The volume of lending in 8 of the 12 Euro zone countries has increased at double digit rates in 2006. In Greece, Ireland and Spain the increases were the highest. Outside of the Euro zone, mortgage growth was high in the UK and the Scandinavian countries (RICS, 2007). Despite its rapid expansion in the Czech Republic, Hungary and Poland, mortgage debt is less than 3 percent of GDP, compared to the usual 40-70 percent in mature housing markets. These subregional differences are presented in Figure 6.

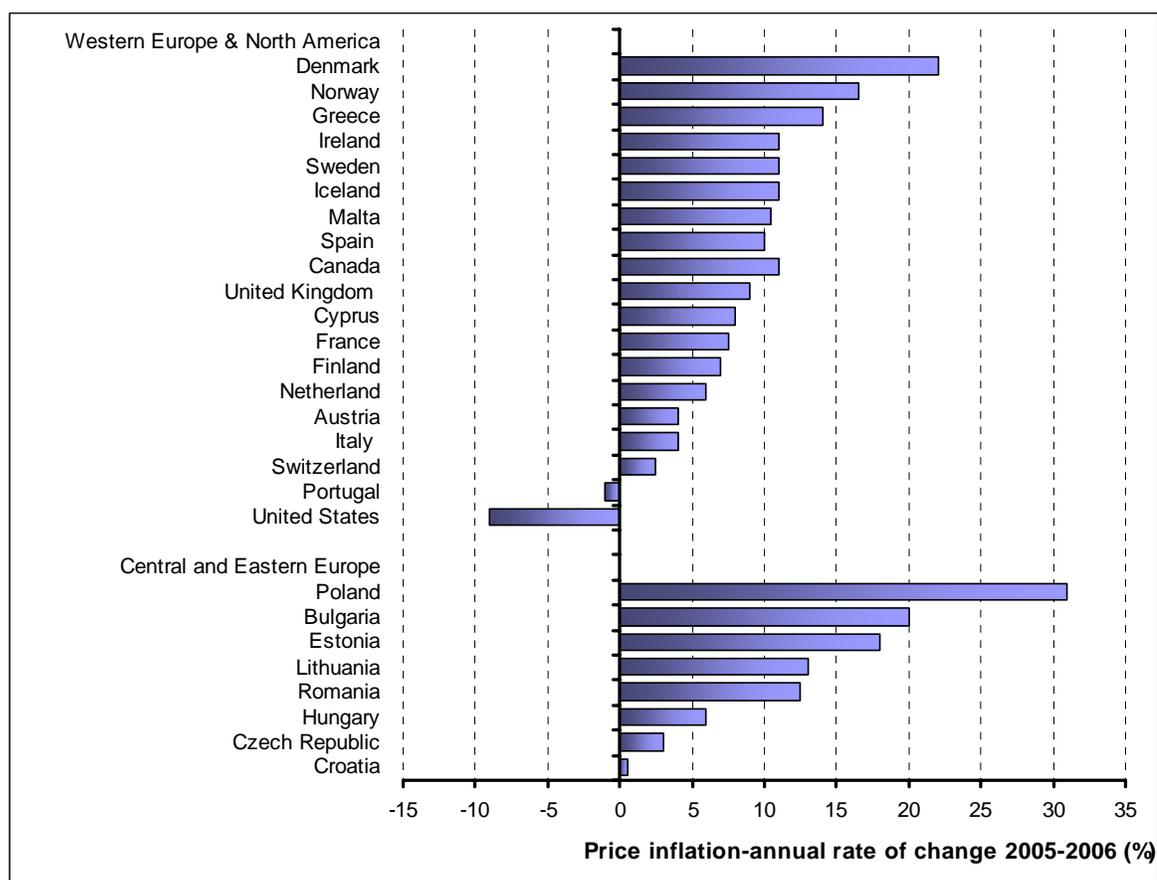
Mortgage borrowing has been the keystone in the transition to a market-based housing system in CEE. Mortgage systems have had to be set up from scratch and initially charged high spreads. Recently, however, mortgage interest rates have tumbled down to levels similar to those in Western Europe, which has led to an explosion of consumer interest. In 2006, in Estonia, for example, typical mortgage interest rates had dropped to 3.6 percent and 100 percent loan-to-value ratios were on offer (RICS, 2007). By contrast, in Central Asia, the current mortgage market is less than 0.7 percent of GDP. A typical residential mortgage loan

currently offered in the region (with the exception of Kazakhstan) is short-term (three to five years), requires a considerable down payment (30% to 40%) and carries a high annual interest rate (up to 25%, fixed) for both US\$ and local currency loans. Only a small number of banks in the region offer mortgages (IFC, 2007). The challenges in the Balkans are similar (see Registra et al, 2004).

## 5 HOUSE PRICE DYNAMICS

The performance of the housing market across countries in the region varies, but overall employment and income growth, and lower interest rates have contributed to its strength in recent years. Most countries in Western Europe have reported solid increases in house prices. Despite growing affordability concerns, housing markets showed few signs of cooling (Figure 7).

Figure 7 House Price Inflation in the UNECE Region, 2005-2006



Source: RICS, 2007; CMHC, 2007; JCHS, 2007

House price inflation in 2006, compared to 2005/2004 levels, is in double-digit figures, although a handful of countries experienced moderate price growth—Spain (5% less), France (3% less) and Finland (2% less). Rather than slowing, four countries actually had notable increases in their house price inflation rates—Denmark, Greece and Norway. The Mediterranean islands of Malta and Cyprus have had substantial price rises, reflecting their attractiveness as tourist/second home destinations. Only Germany and Portugal seemed to be faced with prolonged housing market stagnation. In several CEE countries price increases are at double digit levels, although growth has been slower in the Czech Republic and Hungary. Poland seems to be leading the rapid growth in house prices.

In North America, the performance is mixed. After setting records for home sales, single-family starts, and house price appreciation in 2005, the United States housing markets abruptly reversed in 2006. Total home sales fell 10 percent, starts tumbled by 13 percent, and inventories of unsold vacant homes reached a record 500,000. Foreclosures increased rapidly, particularly in the subprime mortgage market (JCHS, 2007).<sup>7</sup> In Canada both housing starts and sales reached record high levels with house price inflation in the range of 10 percent per year since 2002.<sup>8</sup>

Rising house prices play a major role in the accumulation of household wealth across the UNECE region as well as increase the inequalities between homeowners and tenants (see Box 1).

#### Box 1: Housing inequalities: Renters' net worth declines

The real net worth of the average Canadian household increased 30 per cent, reaching \$383,000 in 2005. Differences in net worth by tenure are substantial indicating that homeowners are generally much wealthier than renters. From 1999 to 2005, the real median net worth of renter households dropped five percent while that of owners rose 27 percent. In 2005, owner households had a median net worth of \$327,000, renters just \$14,000. The typical, or median, homeowner went from being 18 times wealthier than the typical renter household in 1999 to 24 times wealthier in 2005.

Source: CMHC, 2007

Limited information on prices in the capital cities of CIS countries points to rapid increases in the last five years. Prices per square meter in Baku and Almaty have reached US\$ \$1,500–\$2,000, while in Bishkek and Dushanbe they range from US\$250–\$700 (IFC, 2006). With increasing real wages, better job prospects and mortgage lending becoming available, the demand for housing is likely to increase even further, particularly in cities with significant housing shortages.

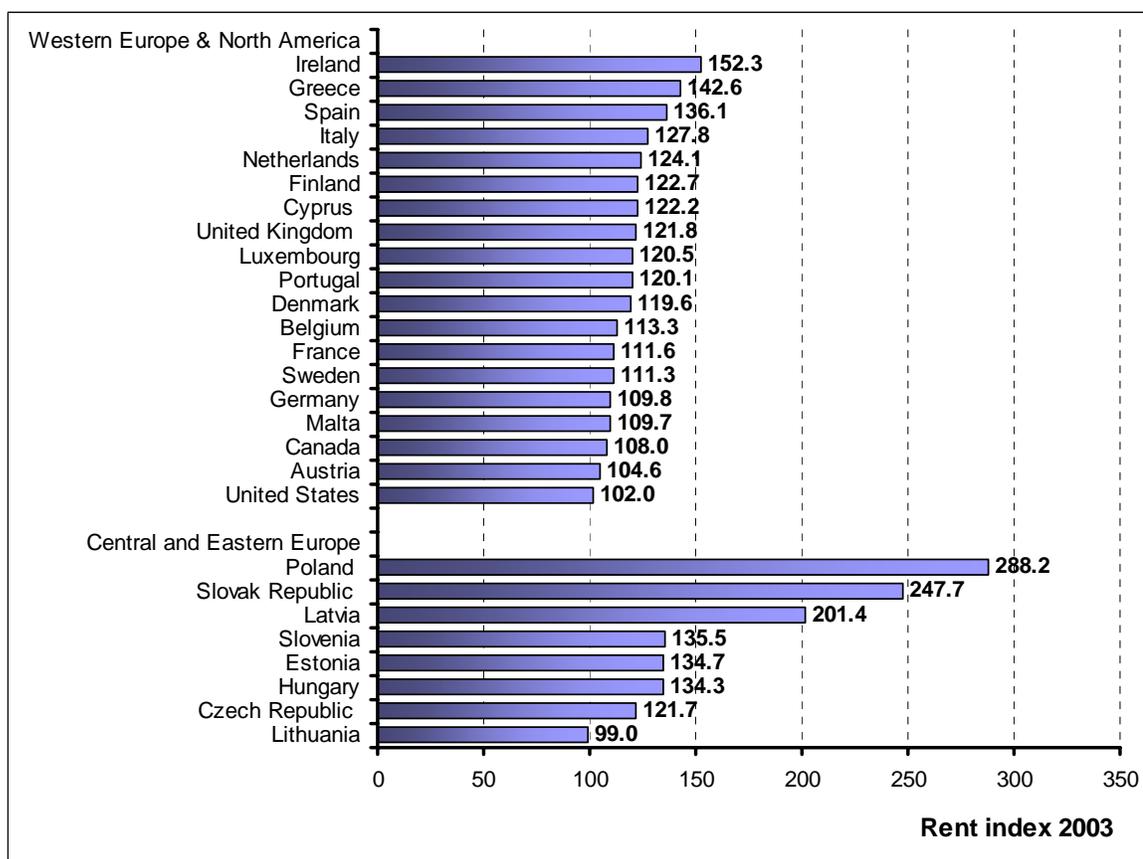
Rents have experienced a much more moderate growth, compared to house prices. Still the rent increases are in the double digit figures for most countries in Western and Eastern Europe with a very dramatic increase in Poland, Slovakia and Latvia. The data presented in Figure 8 measures rents in 2003 compared to 1996, taken as a basis of 100. It should be noted that rents in post-socialist countries accounted for a low share of the household budget in 1996 (less than 10%). The rental sector in most European countries is subject to fair amount of regulation and rent control. Rents are regulated both by broad central government rules and by the policies of municipalities. The broad principle is one of 'softening' market rental movements. Rents are freely negotiated at the time when a household rents a dwelling. After that, however, rent controls apply. They may be linked to inflation or to rent levels in comparable dwellings. In Germany, for example, a rent increase can only be implemented up to a maximum of 20 percent over three years. The national rent index rose one percent annually between 2001 and 2005, which is less than the general rate of inflation.

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<sup>7</sup> Mortgages with interest-only—"affordability products"—have increased from less than five percent in 2002 to 38 percent in mid-2005. In the absence of rapid house price appreciation, the risks imposed by subprime adjustable-rate products are much greater. Between the fourth quarter of 2005 and the fourth quarter of 2006, the share of troubled subprime loans jumped from 6.6 percent to 7.9 percent, driving some mortgage companies into bankruptcy (JCHS, 2007).

<sup>8</sup> The western provinces. British Columbia, Alberta and Manitoba recorded double digit growth in 2006.

Figure 8 Rent Inflation in the UNECE Region, 2003



Source: MolIR, 2006

## 6 SUBSTANDARD HOUSING AND INFORMAL SETTLEMENTS

Substandard housing is defined as housing with at least one of the following problems: housing built for temporary use; housing units not fulfilling the minimal regulatory requirements specified in building codes; housing without basic utility services (indoor toilet and bathroom); housing in structurally unsound buildings with bad physical conditions. There is no systematic data on the share of substandard housing in different countries and its distribution across tenure. Countries also have different definitions, which makes the comparison particularly difficult.

In Western Europe, for example, the proportion of people facing at least one problem in terms of housing conditions (dampness, darkness, a lack of indoor facilities) shows some variation across countries in 2003. Several countries tend to have a higher share of people living in this type of substandard housing (close to 25%)—Belgium, Greece, Spain, France, Luxembourg. In Portugal this share is as high as 40 percent (Eurostat, 2007). Across the transition countries, anecdotal evidence points out to a growing share of housing in unsafe conditions in rural and urban areas as well as in multi-apartment buildings due to systematic disinvestment and deferral of maintenance in the last decades. Some estimates by UN-HABITAT indicate that about 10 percent of the urban population lives in slum conditions without access to basic services and/or in overcrowded dwellings. In Central Asia more than half of the urban population lives in slums (56 percent in Tajikistan, 52 percent in Kyrgyzstan and 51 percent in Uzbekistan). Elsewhere in the subregion these rates are 30 percent for Moldova and Kazakhstan and 19 percent in Romania, Bosnia and Herzegovina, Croatia and Macedonia

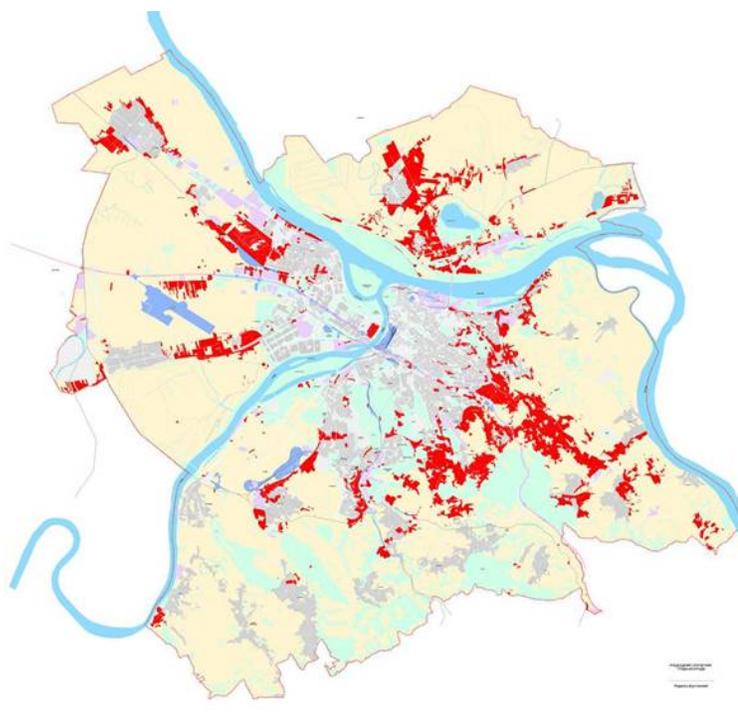
(UN-HABITAT, 2005a).

Studies have highlighted the housing deprivation of Roma communities, often living in city slums. Romania has the highest absolute number of Roma in Europe – between 1 and 2 million, while this share tends to be lower in Hungary, Bulgaria, and Slovak Republic. In Western Europe, the largest Roma populations live in Spain (around 600'000), France (around 300'000), Germany (around 70'000) and Italy (around 100'000). Roma communities often live in “mahalas”, inner city slums, dating back to the 19<sup>th</sup> century. The evidence below highlights the dimensions of these problems in the region (see Box 2).

#### Box 2: Housing Exclusion: The Case of Roma communities

The Roma in Serbia and Montenegro often live in unsafe and impoverished areas. They build housing by themselves using non-durable materials or employing unused old railway cars, buses etc. The majority of their housing units are, in fact huts, shacks or so-called tent settlements. In a number of these settlements connections to water tend to be illegal; there is no waste collection, no sewerage systems and no indoor plumbing. In Serbia around 70 percent of Roma households reportedly live in dwellings with no water connection, over 80 percent with no sewerage and 65 percent in illegally built settlements. In Montenegro, 32 percent of the Roma live in collective centers and 47.6 percent live in barracks while 45 percent lack plumbing and tap water at home (World Bank, 2005).

**Informal settlements.** The problem of slums and substandard housing in the region is directly related to the proliferation of informal settlements. Their typology is diverse varying in terms of standard (from slums to luxurious residences), location (from suburbs to city cores and protected areas) and size (from several small units to over 50,000 residents' settlements). Among other objective reasons, the flow of migrants from rural areas, but also the influx of refugees and internally displaced people has contributed to illegal construction in larger cities. Apart from addressing urgent housing needs, illegal investments in real estate have been used by many households as a 'shield' against instability and hyper-inflation. Often these areas lack roads, basic infrastructure and social facilities (schools, hospitals) thus threatening the public health of large urban centres in the region.



**Figure 9: Informal Settlements in Belgrade**

Source: UN-HABITAT, 2006

Skopje, for example, has 27 illegally constructed neighbourhoods dating back to the earthquake in the 1980s. In Belgrade informal settlements occupy 22 percent of the land for construction, and in Tirana 45 percent of the population lives in informal

settlements on the outskirts of the city. In Turkey, as a result of haphazard and rapid movement to urban areas, cities are overpopulated, leading to more poverty, unemployment and deteriorating living conditions. Problems are manifested in the lack of affordable housing, inadequate infrastructure, shortages in water and electricity supply, and limited access to services such as education and health (UN-HABITAT 2002a). The proliferation of informal settlements in Istanbul, Tirana, Erevan and Tbilisi is a major concern, particularly in places such as Istanbul where 70 percent of the population lives in informal housing.<sup>9</sup> Legalizing these settlements means providing infrastructure such as roads, water, sewerage and electricity, and requires significant investments (ECE, 2007a). The presence of informal settlements along the coastal areas, often for recreational purposes, also points to the unresolved complexity of access to urban land and housing in Greece, Portugal and Cyprus.

**War damaged housing.** The share of substandard housing has increased dramatically in war affected countries. In Bosnia and Herzegovina these challenges are particularly significant. Some 445,000 homes in the country have been partially or totally destroyed, which is more than a 37 percent of pre-war housing stock. According to the Ministry of Refugees and Human Rights the level of reconstruction in housing is some 37 percent, with close to 164,000 housing units reconstructed till 2004. About 42 percent of the housing units that need reconstruction have different scale of damage: almost half (44%) have a devastation level over 75 percent, 16 percent have a devastation level between 45 and 65 percent, some 13 percent – devastation level of 25-40 percent, while another 10 percent have a devastation level lower than 20 percent. In Kosovo/UNMIK, 30 percent of the housing stock was damaged and in some cases whole villages were totally destroyed. According to the Ministry of Public Construction in Croatia the damaged and demolished housing stock is over 200.000 dwelling units, or close to 13 percent of the total for the country (Wegelin, 2003).

#### **IV. HOUSING POLICY RESPONSES: PROVISION OF ADEQUATE AND AFFORDABLE HOUSING**

##### **1 THE NEW SUBSIDY REGIME AND AFFORDABILITY CONSTRAINTS**

Housing reforms in the UNECE region in the past decade have promoted policies to reassert market forces and reduce State intervention. Across the region, the changing demographic and social composition of the population, the growing social polarization and income differentiation have influenced housing demand dynamics. On the one hand, this has lead to a more diverse pattern of lifestyles and housing choices. People with more disposable income seek better living standards and move upmarket to more attractive environments. On the other hand, poverty manifests itself through the growing number of people on welfare, rising homelessness and a general shortage of affordable housing, particularly in urban areas. In Western Europe and North America, housing policies have emphasized the importance of financial instruments – mortgage insurance, tax incentives and demand assistance to target groups -- to facilitate access and choice. However, due to price inflation and higher rates of homeownership, the gap between income and entry costs has continued to increase for low-income households, making affordable housing of decent quality more difficult to obtain. In transition countries rapid price increases in the last five years, coupled with high unemployment and higher interest rates on mortgages have excluded more than 80 percent of new households from the housing market. The previous

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<sup>9</sup> In Kyrgyzstan the rural poverty has pushed people to cities in search jobs and better livelihood. In the past five years 150,000 to 200,000 people have migrated to Bishkek from the provinces. Osh, the country's second largest city, has seen a similar influx resulting in informal substandard housing on the outskirts. The housing units often lack basic necessities, such as sanitation and running water (IFC, 2006).

housing shortage has been replaced by a *shortage of affordable housing*, suggesting a deepening housing crisis. Meanwhile, existing homeowners find it increasingly difficult to pay the cost of housing services—utilities, heating and maintenance—which systematically erodes the quality of the housing stock.

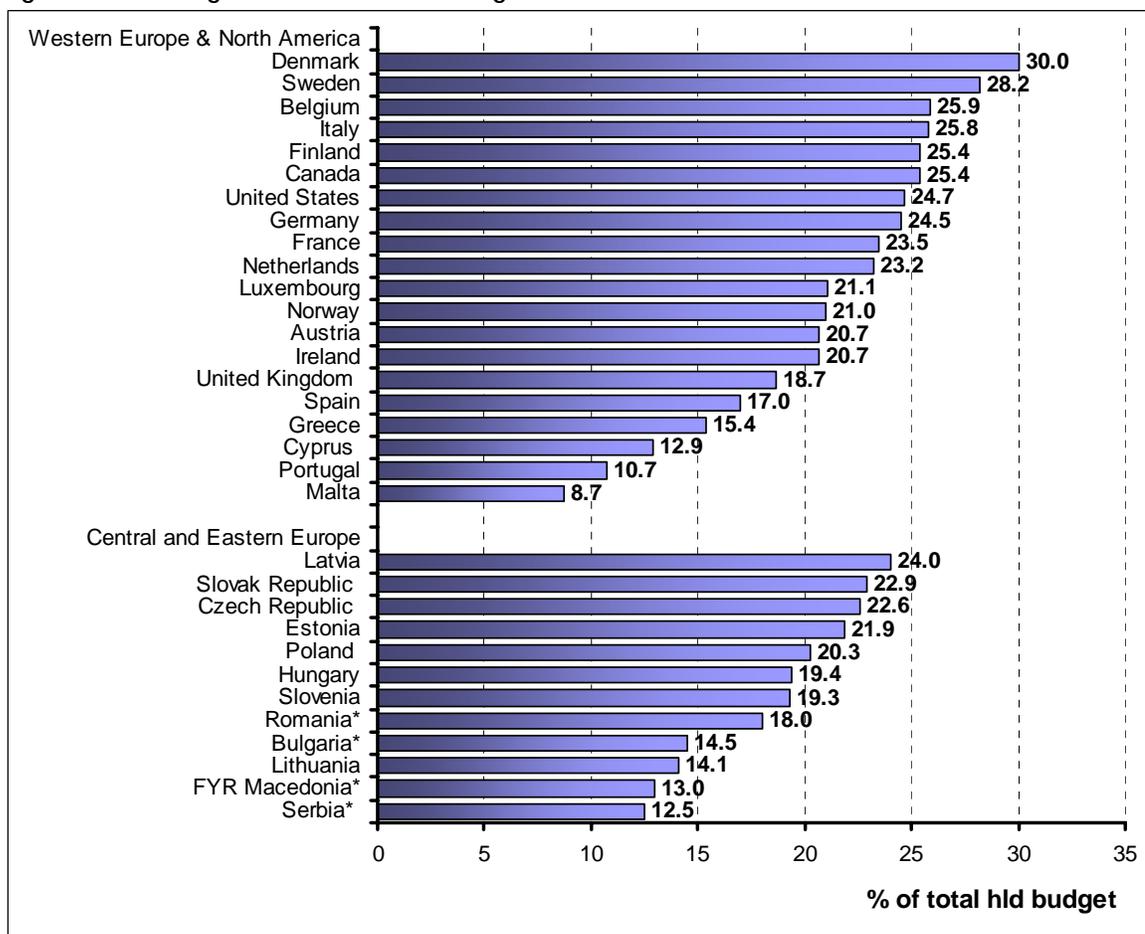
Under the new subsidy regime both in Western and Eastern Europe, *subsidies focus on owner-occupation*. Mortgage interest tax relief exists in Ireland, the Netherlands, the United States, the United Kingdom and Spain. France offers subsidies on savings schemes for many newly-built and renovated properties and provides a quarter of a million zero interest rate mortgages annually. Looking beyond this group, housing subsidies and tax breaks are common in Austria, Germany, Russia, Croatia, the Czech Republic, Hungary and Poland. Furthermore, a myriad of regulations make housing supply respond slowly to price rises. Although not directly subsidized, homeowners in the United States and Canada get capital gains exclusion.

It has been argued that part of these subsidies leak out to benefit mortgage and other providers in the housing systems, and raise the value of existing dwellings and development land. The prime intended beneficiaries, nonetheless, are the better-off owner-occupiers who can qualify for mortgage interest tax relief (Angel, 2000; RICS, 2007). The new subsidy schemes in Central and Eastern Europe have been criticised for being particularly inefficient in targeting households in need and in supporting the most affluent housing consumers (Tsenkova, 2005; Hegedus and Stryuk, 2006).

Meanwhile, demand-based subsidies to low income renters have failed to keep pace with the rising housing costs. In most transition countries such assistance is non-existent and where it has been launched (e.g. The Czech Republic, Poland, Romania, Estonia and Latvia); it reaches a small number of households and is grossly inadequate (Lux, 2003). In the United States, federal assistance to very low-income households reaches only about one-quarter of eligible renters. Housing assistance as a share of total nondefense discretionary spending dropped from 10.2 percent in 1998 to 7.7 percent in 2006, failing to keep up with inflation (JCHS, 2007). Since in most countries in Europe housing policy is essentially a regional, not a national matter, leading to a great diversity of housing assistance programs for housing renovation as well as demand-based housing subsidies across tenure, it is beyond the scope of this report to compare the different types of assistance. Rather, the analysis will point out some market outcomes that indicate growing affordability problems.

Data on housing expenditure—housing, water, electricity and gas—show that it accounts for more than one fifth of total household expenditure in 2004. The proportion of household expenditure devoted to housing is presented in Figure 10. The highest share is reported for Denmark (30%), followed by Sweden (28.6%), which is 3.4 times as high as in Malta (8.5%). CEE countries have comparable rates of household expenditure on housing with Latvia, Slovakia and the Czech Republic exceeding 22 percent.

Figure 10: Housing Costs in the UNECE region, 2004

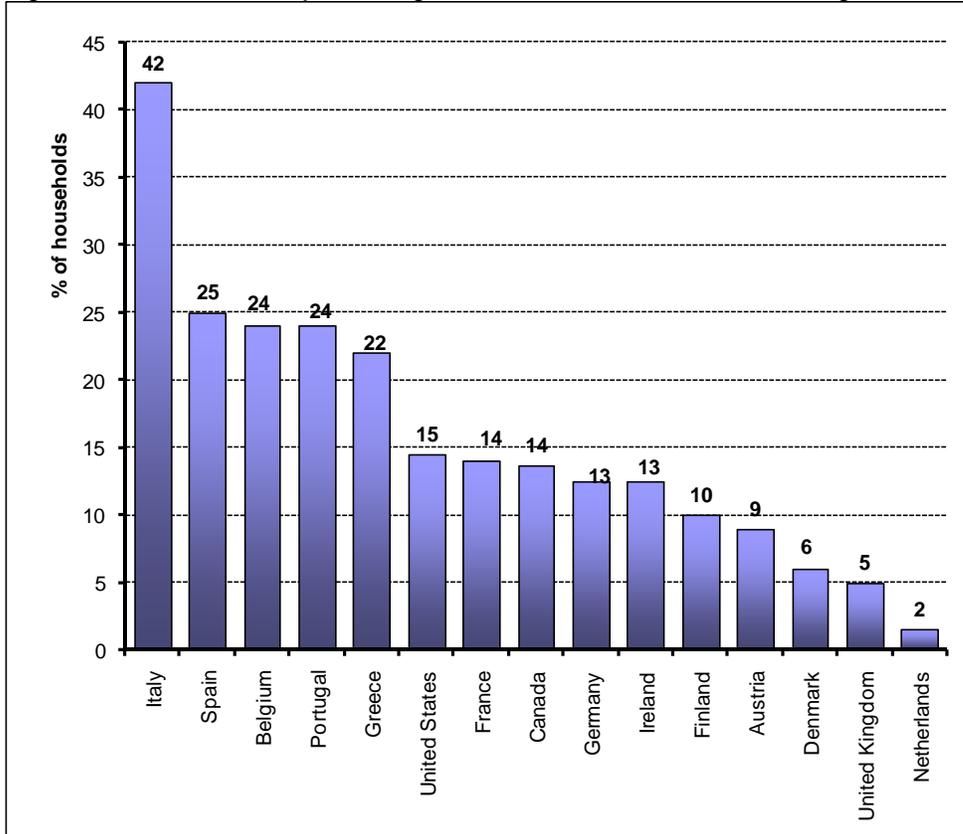


Source: Eurostat, 2007

Note: data for SEE-\*Tsenkova, 2005, Canada-CMHC, 2007, US- JCHS, 2007

*Affordability of housing remains the fastest-growing and most pervasive housing challenge in the UNECE region. Housing costs have increased with significant implications for access to adequate and affordable housing, particularly for vulnerable groups. The data in Figure 11 presents the share of households experiencing significant financial difficulties due to housing costs across the region. In four countries—Belgium, Spain, Portugal and Greece—a quarter of the households are financially stressed. In Italy this share is exceptionally high reaching 42 percent in 2004. While the data are limited, it appears that countries with higher homeownership rates and limited tenure choice tend to have a higher share of households experiencing affordability problems. Furthermore, the situation appears to be more problematic in urban areas where higher prices for housing and concentration of poverty create cumulative disadvantages. For example, in Canada, 23 percent of all urban households spend 30 per cent or more of their income on housing costs.*

Figure 11: Households Experiencing Financial Difficulties due to Housing Costs, 2004



Source: Eurostat, 2007

Note: data for Canada-CMHC, 2007, US- JCHS, 2007

The general incidence of core housing need in immigrant households, regardless of their time of arrival in Canada, is over 18 per cent, a level higher than the 2002-2004 average for all Canadians of 13.8 per cent (CMHC, 2007).<sup>10</sup> The evidence in Box 3 illustrates the magnitude of these problems in the United States.

### Box 3: Affordability Constraints in the United States

In the United States the number of households spending more than half their incomes on housing is rising rapidly reaching 17 million by 2006 (one in seven US households). Moreover, 2.1 million households live in severely inadequate housing while about three-quarters of a million people are homeless on any given night. Nearly half of low-income households—a total of 8.2 million renters and 5.0 million homeowners—have severe burdens. To cope with the high costs of housing, some households resort to living in small quarters or sharing space with others. While only three per cent of households live in such condition, the largest metro markets, such as Los Angeles, San Diego, San Jose, and New York, have an overcrowding rate twice the national average. Immigrants are more than seven times as likely to live in overcrowded conditions (JCHS, 2007).

<sup>10</sup> In Canada households which occupy housing that falls below any of the dwelling adequacy, suitability or affordability standards, and which would have to spend 30 per cent or more of their before-tax income to pay for the median rent of alternative local market housing that meets all three standards, are said to be in core housing need.

Homelessness across the ECE region is a serious challenge and a sign of major failure of welfare states to deliver affordable housing for all. The United States National Law Center for Homelessness and Poverty reported that over 3 million people were homeless in 2003, about 30 percent chronically and the others temporarily. In many cases people are in and out of the homeless system, which includes shelters, hospitals, the streets and prisons. Across the European Union, 3 million people were reported as homeless during the winter of 2003. It is very difficult to measure the extent of homelessness, which is further complicated by the lack of comparable definitions.

FEANTSA, the European Observatory on Homelessness, has developed a robust methodology to reflect the different aspects of homelessness and housing exclusion. It explores three different domains: physical, legal and social. In operational terms, the definition uses seven categories: i) rooflessness, ii) houselessness, iii) insecure and inadequate housing, iv) inadequate housing and social isolation within a legally occupied dwelling, v) inadequate housing with secure tenure; vi) insecure housing (adequate physical characteristics, but no security of tenure, vii) social isolation within secure and adequate context. Categories (i) and (ii) define homelessness, while categories (iii) to (vii) define housing exclusion. Table 3 presents the most recent data on homelessness in 15 countries. The total estimate of the homeless population in Europe in the two categories that define homelessness is close to 600,000 with more than 60,000 people sleeping rough and another 400,000 in homeless shelters. Asylum seekers are another disadvantaged category accounting for over 105,000 in temporary shelters. Although the evidence for CEE countries suggests that homelessness is less significant in quantitative terms, Poland and Hungary seem to have a growing number of homeless people and rising demand for overnight shelters. Germany alone has more than 300,000 homeless people, mostly in overnight accommodation. In the United States more than 750,000 people are reported to be homeless in 2006.

In some countries a complex strategic policy response is being adopted to homelessness, coordinating various policy fields, services and measures. In other cases, homelessness is not even recognised as a policy problem, or, if it is recognised, only fragmented measures are adopted. While several European countries have initiated different programs, the *Netherlands* has adopted *Homelessness Action Plan* in 2006 with follow up action plans by the cities of Amsterdam, The Hague, Rotterdam and Utrecht. It aims to reach over 10,000 roofless people in the largest four cities and provide them with individual service pathways and sources of income, health care and employment (Mandič, 2006). In *Sweden*, specific measures (rent loss guarantees) are used by some municipalities to encourage landlords to accept homeless people with low and uncertain incomes or with a poor rent-paying reference. The Government also recommends the use of such guarantees for young people having the same problem; it has announced a special contribution of 100 million SEK per year in 2007 and 2008 to cover these costs. In *Ireland*, Homelessness - an integrated strategy' was launched in 2000. The strategy put forward 24 proposals for action and aimed to develop a comprehensive government response addressing the problem. This included emergency, transitional and long-term responses, covering health, employment, education and housing. The UK is focusing on prevention of homelessness in addition to implementation of its *Homeless Housing Act*.

**Table 3: Homelessness**

Country	Roofless: People living rough & People staying in a night shelter		Houseless: People in accommodation for the homeless	Houseless: People in accommodation for immigrants
	Roofless	Overnight Shelter	Homeless hostel	Asylum
<b>Western Europe &amp; North America</b>				
Denmark	No data	No data	7,791 (2005)	3'736
Finland		470 (2005)	1,153 (2005)	na
France	5,080 (S)	15,712 places	46,469 (S) 1,750 organismes (S)	Logement d'urgence (AUDA, CHU) 7,804 places (S) Hebergement provisoire (CADA, CPH) 18,553 places
Germany	20'000	na	272,000 (S)	14,900 (2004) (S)
Greece	6,000 (S)	1,000 (F)	300 (2006) (F)	1,800 (F)
Ireland	41 (households)	496 (households)	228 (households)	3,891 (individuals)
Italy	17,000 (S) no abode (2000) & 13,038 (S) without accommodation (2004)		na	2,428 beds (2006) (S)
Netherlands	na	3,237 (2003)	1,905 persons (2001)	28,752 (2005)
Portugal	467 persons (2005)	na	2,202 persons	125 people (2004)
Spain	8,218 (S) (2005)	4,058 (S) (2005)	6,574 (2005)	5,254 (2005) (F)
Sweden	940 (Apr2005)	2,060 (Apr2005)	940 (Apr2005)	15,700 (Nov2005)
United Kingdom	521	1'722	11'828	2'503
<i>Western Europe</i>				
Canada				
United States				
<i>North America</i>				
<b>Central and Eastern Europe</b>				
Czech Republic	2,279 (S) (2004 Prague)	267 (S) (2004 Prague)	719 (2004 Prague) (S)	484 (2001) (S)
	452 (S) (2006 Brno)	491 (S) (2005 MOLSA)	380 (2006 Brno) (S)	
	1,000-1,200 (S) (est) (2005 Region of Ostrava)		3,986 beds (2005) (S)	
Estonia	1,800 (2005)	1,460 (2005)	90 places (2005)	35 places (2005)
Hungary	12'800	2,000 (2005)	4,000 (2000)	1,700 (2000)
Latvia	na	5,812 (clients) (2005)		20 (2005)
Lithuania	1'250	111 (2005)	1,977 (2005)	130 (2005)
Poland	628 (S)	33'434		na
Slovenia	900	27	165 beds (2005) (S)	1,205 (+256) (2004)

Source: Edagar, Bill and Meert, Henk. (2006). *Fifth Review of Statistics on Homelessness in Europe*. European Federation of National Organisations Working with the Homeless, November.

The crisis of displaced people and refugees. Across the region, internal displacement continues to be a major problem directly related to housing in the Balkans, the Caucasus, Turkey and Cyprus, where the number of IDPs stands at 2.8 million (see Table 4). *South Eastern Europe has experienced the largest refugee crisis in Europe since World War II*. By 1995, the region witnessed the displacement of more than 2 million people creating unique housing challenges. Serbia and Montenegro still host the largest number of refugees and IDPs in Europe, including 226,104 IDPs from Kosovo/UNMIK. While the majority lives in private accommodation, some 17,000 remain in collective centres. A crucial element underpinning the return of refugees to Bosnia & Herzegovina is the implementation of the property laws (UN-HABITAT, 2005c). Creating an atmosphere for sustainable return through the effective implementation of the right to property, education, housing, health care and employment is an integral part of the overall strategy of stability and development in countries in the region affected by the refugee and IDP crisis (IDMC, 2007; Wegelin 2003).

Table 4: Refugees and displaced persons in the UNECE region

Country	Refugees	Displaced Persons
Azerbaijan		686, 586
Bosnia & Herzegovina	22,223	186,451
Cyprus		210,000
Georgia		247,000
Russian Federation	102,965	158,900
Serbia & Montenegro	149,915	226,106
Turkey		953,680 – 1,201,200
Canada	147,171	-
France	137,316	-
Germany	700,016	-
Netherlands	118,189	-
Switzerland	48,030	-
United Kingdom	293,459	-
United States	379,340	-

Source: Refugee data refer to 2005, UN\_HABITAT 2007b, IDP data from IDMC, 2007)

Similarly to Azerbaijan (see Box 4), restitution/compensation legislation and resettlement has also been implemented in the Balkans, Cyprus, Turkey and Georgia with varying rates of success. In northern Cyprus, a property commission was set up in March 2006 to deal with property-related compensation. However, IDPs and refugees in the Balkans, the Caucasus, Turkey and Cyprus continue to face poor housing conditions in collective centers, and significant obstacles to return and local integration (IDMC, 2007).

#### Box 4: The Housing Crisis of Refugees and Displaced people in Azerbaijan



Currently there are close to 1 million refugees and IDPs in Azerbaijan, which makes up 12 percent of the total population. Although 14 years have passed since the beginning of Armenia-Azerbaijan conflict, over 1,722 refugee households have not been permanently settled. Within the IDP population, there is still a sizeable group living in unsatisfactory and precarious conditions. After 10 years, over 55,000 of them still live in tent camps, 32,000 in prefabricated temporary houses, 57,000 in

farms and dig-outs, 8,000 in railway cars and the rest in hostels, public buildings, unfinished construction buildings with no utilities. Long-term solutions are being envisaged through resettlement (as the new homes in Walicki demonstrate), or restitution and compensation schemes. The government of Azerbaijan has allocated some 60,000 hectares of state and municipal land to IDPs and created 760 farms providing livelihoods for about 47,000 IDPs so far.

Source: Ministry of Economy, 2003

Several countries in the UNECE region have become the home of a significant number of refugees and asylum seekers. Table 4 presents the most recent data available on the number of refugees in European and North American countries where the share is most significant. Despite the clear links between immigration, refugee acceptance and housing policies in the European countries, recent studies indicate that different levels of state control and housing provision exists. Most countries increasingly rely on a mix of integration and assimilation policies promoting market-based solution to housing choices (CECODHAS, 2007). In several countries (Portugal, Greece, Italy, Canada and the United States) the lack of policies aimed at improving housing for refugees and immigrants in the context of an exclusively private housing provision has resulted in growing housing problems.

In *Italy*, housing problems of immigrants have been defined as ‘dramatic’, particularly the undocumented or ‘irregular’ immigrants living in slums and squatter settlements. Containment and site clearance policies continue, and access to social housing requires 5 years residence. In Greece only half of the country’s one million immigrants are recorded and the situation in reception centers for refugees is reportedly inadequate. In *Portugal* in 2006, the issue of unfit housing for immigrants was exposed, particularly by the Immigrants Association, when several shanty settlements in the Lisbon area were pulled down. A special Rehousing Program provided homes only to those immigrant families that were already registered in 1993; others were evicted (Mandic, 2006).

**Gender inequalities in access to housing.** While gender inequalities in housing may not be as problematic in the UNECE region compared to the other regions of the world, women still face considerable challenges in housing markets. Most countries in the region have gender neutral housing policies. Governments at all levels support equal access to property rights, ensuring women’s ability to own, maintain, invest in, dispose of and inherit housing. In that regard, the UNECE region with progressive policies and legislation, be it through long democratic traditions in Western countries or through heritage of gender equality in formerly socialist/communist states, can serve as a positive example. The gender debate in housing policy discourse centers on gender inequalities reinforced by the way housing is produced, designed and financed, particularly in housing systems dominated by homeownership, where the gendered division of labour and status is maintained (Edgar and Doherty, 2001; Reitsma-Street *et al.*, 2001). Within this context, the 56 countries in the region have different performance in terms of gender equality in general as well as in terms of solutions to discrimination of women in land and housing markets in particular.

In *The Global Gender Gap Report 2007*, which covers a total of 128 countries, Sweden (1), Norway (2), Finland (3) and Iceland (4) once again top the rankings. Latvia (13) and Lithuania (14) made the biggest advances among the top 20, gaining six and seven places respectively, driven by smaller gender gaps in labour force participation and wages. The Report measures the size of the gender gap in four critical areas of inequality between men and women Hausmann, R.; L. Tyson; S. Zahidi (2007).<sup>11</sup> Ranking pertaining to economic participation and income inequalities is particularly important for access to adequate and affordable housing. A significant number of countries in the UNECE region are global leaders in closing the gender income gap. Despite these gains, especially for well-educated and healthy women, comparative studies point out to the fact that many women face the new millennium with irregular access to competitive labour markets while dealing with the triple burden of managing careers, raising a family and looking after aging parents.

The problems are particularly significant for women on low incomes—seniors and single parents. In the urban centers with higher housing costs these women-led households often face multiple disadvantages—inadequate housing conditions, affordability constraints, isolation in unsafe residential environments or threats from violence in crime ridden neighborhoods. Furthermore, employment and income assistance, as well as existing health and social policies, significantly restrict eligibility for housing support and mobility. Most discouraging is the realization that the scope and depth of the housing disadvantages of women living on low

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<sup>11</sup> 1) Economic participation and opportunity – outcomes on salaries, participation levels and access to high-skilled employment

2) Educational attainment – outcomes on access to basic and higher level education

3) Political empowerment – outcomes on representation in decision-making structures

4) Health and survival – outcomes on life expectancy and sex ratio.

incomes in Europe and the United States have not changed much, despite years of housing policies and programs by all levels of governments, and despite some successful strategies to provide a range of subsidized housing opportunities (shelters, assisted housing for seniors, non-profit community based housing projects).

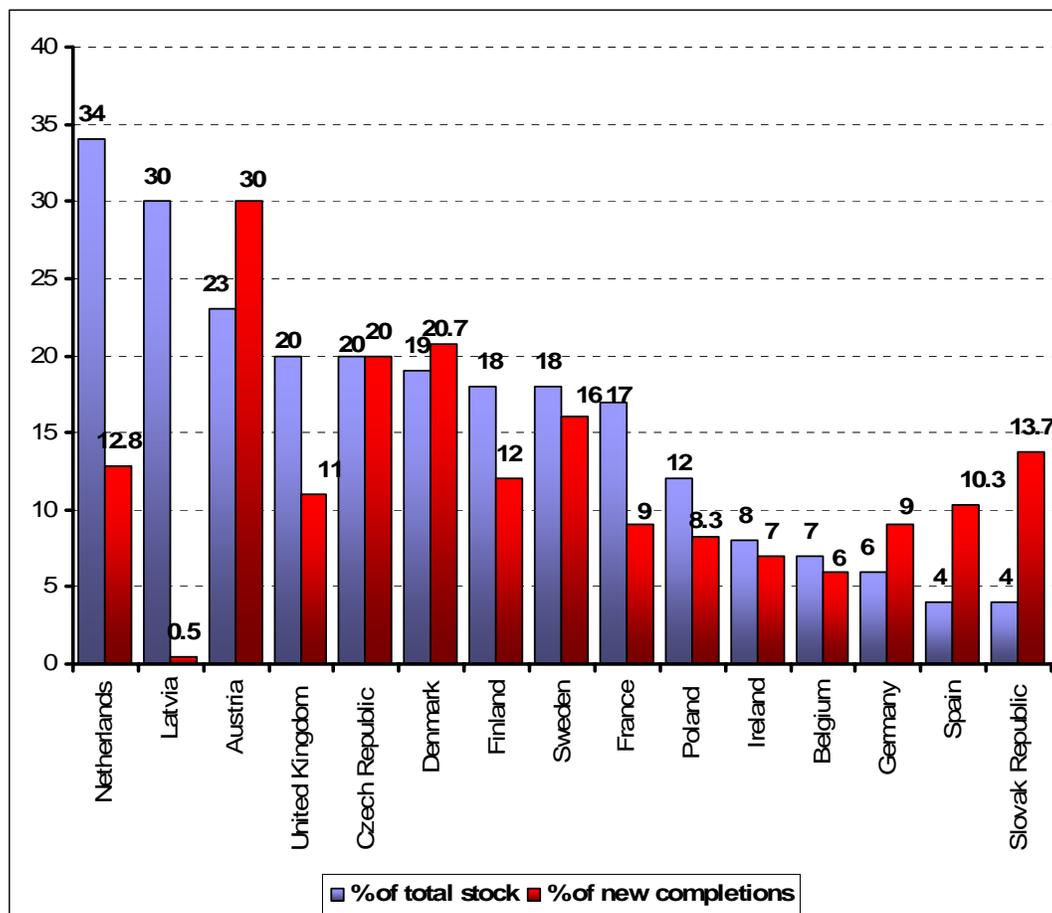
Single-parent families in particular, most of them maintained by women caring for one or more children, have increased dramatically in the last decade and have poverty rates consistently over 50 percent in Canada and the United States (JCHS, 2007; Reitsma-Street *et al*, 2001). Most vulnerable to poverty, homelessness and to inadequate housing are those women, with or without children, who face racism, illness and addictions according to national reports on homelessness among women in 15 countries of the European Union (Edgar and Doherty, 2001). The general risk factors are aggravated by the structural disadvantages in housing and labour markets. Among ethnic minorities the problems escalate due to racism, discrimination, social isolation, which become even more pronounced in the case of asylum-seekers burdened with regulatory constraints.

### 3 LIMITED PROVISION OF SOCIAL HOUSING

While affordability constraints are growing, less social housing is being provided for low income households. In Canada and the United States a handful of local governments have had the political will to overcome some of the barriers to development of affordable housing. With little regulatory relief in sight and slim chances for a significant expansion of federal and provincial/state subsidies, the prospects for a meaningful reduction in the number of households with growing affordability problems in large urban centres are dismal. The federal government in the US spends US \$4.7 billion per year in federal tax credits for building and rehabilitation of affordable housing, but has made little progress in stopping the loss of low-cost rentals from the nation's housing stock (JCHS, 2007). According to a recent report released by the Brookings Institution, nearly 23 percent of jurisdictions in the 50 largest metropolitan areas in the US have some kind of an incentive-based affordable housing program, while 15 percent have a dedicated source of funds for affordable housing. While these measures are promising, it will nevertheless take much greater federal, state, and local effort to address the nation's affordability problems.

Developing housing for extremely low-income households is difficult without multiple subsidies and complex financing packages. While a lot of the projects aim at private or non-profit sector involvement for the new provision of social housing, without capital subsidies to fill the gap between what low-income renters can pay and the rents needed to cover development costs, programs cannot adequately serve the poor. Furthermore, the combination of higher construction and operating costs, along with stagnant or even declining rents tied to household income limits, can undermine the fundamental viability of affordable housing projects. In this context, it is not surprising that new social housing is not provided in most countries across the region. Figure 12 suggests that in countries where the sector is significant, there is an ongoing commitment to maintain adequate supply. The data presents the share of social housing in each country and the new social housing built in 2004 as a share of total new construction. Austria (30%), Denmark (20.7%) and Sweden (16%) have the highest rates of new social housing production, followed by Finland, UK and the Netherlands with rates in the range of 12 percent. It is interesting to note that several countries (Poland, the Czech Republic and Slovakia) have initiated new social housing programs in recognition of their importance for marginalized groups in society.

Figure 12: Social Housing: Existing Stock and Rates of New Construction, 2004



Source: Mollr, 2006

In addition to government funding, the construction of social housing in the UNECE region is supported by the Council of Europe Bank (CEB) through the provision of low cost credit guaranteed by central governments (see Box 5).

In Western Europe social housing continues to play a major role in assuring access to affordable housing of decent standard. As the importance of the sector in meeting housing shortages has diminished, differences in the approaches in different countries have emerged. In countries where there is a significant share of social housing (e.g. France, Denmark, Finland, Sweden and Netherlands), allocation encourages an income mix, rents are closer to cost recovery but low-income households receive allowances. In countries where the sector is small (e.g. Ireland, Spain, Portugal, Greece), rents are low since it is used as a safety net for vulnerable households. In these cases, allocation policies are driven by bureaucratic rules and demand-based assistance is more limited (Tsenkova, 2004).

### Box 5: Council of Europe Bank: Social housing projects



Since its inception, the CEB has approved a cumulative amount of more than € 9 billion of loans for the social housing sector, making the Bank a leading financier in this important area across a number of countries in Europe. During the last decade, CEB's activity in this field has accelerated. Indeed, since 1995, the € 5.6 billion in loans were approved for the financing of 128 projects. The Bank's largest borrowers in this sector comprise today Spain, Italy, Turkey, France

and Poland.

In Poland CEB supports the construction and modernisation of approximately 12,500 social housing units intended for low-income families, shown in the photo above. This will enable over 40,000 people to gain access to affordable rental housing through a new model of non-profit provision. In Portugal projects support the construction of social housing and renovation of existing units by social housing providers (municipal agencies, co-operatives and associations), and by private developers. In Romania CEB subsidised credits finance a large scale social housing programme targeting young people and low-income families through the provision of 22,000 social housing units.

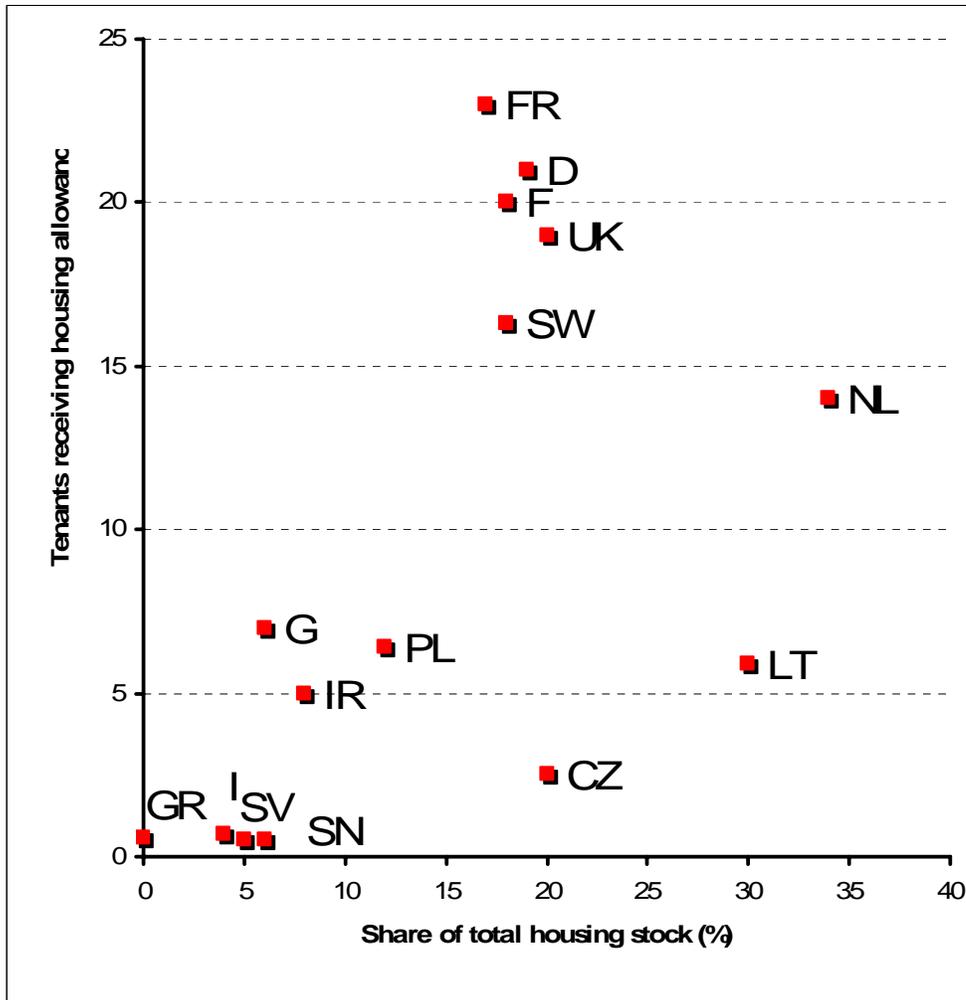
Source: CEB, 2007

Figure 13 presents these patterns using most recent data (2004) on share of social housing vs. the share of tenants receiving housing allowances. In transition countries, where *social housing* has shrunk as a result of massive privatization, local authorities are left with the worst stock in a poor state of repair and with the poorest tenants. So it is not surprising that in countries such as Slovenia and Lithuania social housing is used as a safety net and rents are below cost recovery levels with a limited number of tenants receiving housing allowances. What is surprising is that a similar strategy is being adopted in Latvia, the Czech Republic and Poland (to some extent), as the data in Figure 13 indicate. Countries in transition can benefit from the Western European experiences to improve their rent and social housing management policies to make the sector more sustainable.<sup>12</sup>

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<sup>12</sup> For example, in the Czech Republic, where social rented housing is close to 20% of the stock, rents are less than 25% of the market rents. The sector is home to 10% of the most affluent households.

Figure 13: Social Housing: Existing Stock and Tenant Support, 2004



Note: Fr-France; D-Denmark, F-Finland, Sw-Sweden, UK-United Kingdom, NI-The Netherlands, G-Germany, Gr-Greece, I-Italy, Ir-Ireland, Pl-Poland, Lt-Latvia, Sn-Slovenia, Sv-Slovak Republic.

Source: MolIR, 2006

#### 4 LAND SHORTAGES FOR AFFORDABLE HOUSING

The irreversible trends of urbanization and concentration of poverty in some cities have affected housing affordability and availability as well as created significant shortages of land for affordable housing. Most countries across the UNECE region have to deal with these pressures to varied degrees. While land for housing is mostly provided through the market with a variety of long-term urban planning strategies in place to ensure 20-25 year land supply for new housing, many high growth regions need coordinated planning by all levels of government in cooperation with civil society and commercial interests to respond to a deepening shortage of land for affordable housing (Monk *et al*, 2005; UN-HABITAT, 2005b)). National, regional and local governments have important responsibilities and authority for zoning land use and building codes that can significantly affect the availability of land supply. However, local authorities have limited taxation power or capacity to build non-market housing (UN-Habitat, 2002; Whitehead and Scanlon, 2007). Yet, it is the local governments that are closest to the needs of low income residents and where local shortages of land for affordable housing are manifested in a very explicit way.

In countries with mature land markets, the shortage of land in high growth regions contributes to the increase in house prices. Britain, for example, is heading for a property shortage of more than a million homes by 2022, mostly concentrated in London and the South East. In response, government policies direct up to 60 percent of the new homes to recycled 'brownfield' sites through proactive planning, land assembly and government subsidies (Joseph Rowntree Foundation, 2002). In other European countries special schemes are being used in areas with high house prices such as the land pooling arrangements in France and Germany, where landowners have incentives to make land collectively available for housing. Another innovation that protects the value of land and ensures its availability when needed for social housing is the Community Land Trust used in the United States. Planning gains, density bonusing, inclusionary zoning, are other tools in the planning framework and approval system practiced widely in many cities and countries across the UNECE region to provide land for affordable (often social) housing (Monk *et al*, 2005; Whitehead and Scanlon, 2007).

Several countries have introduced initiatives to supply social housing with more shallow subsidies and private involvement (England, Denmark, Ireland, the Netherlands, Finland and Germany), which depend on local government supplying free or cheap land and the use of the planning system to enable provision. In Dublin, private developers must transfer 20 percent of new dwellings on large sites, or the equivalent, to the city for use as social or affordable housing. Cities such as Munich are requiring private developers to include a certain percentage of social housing in new developments. In England 20-50 percent of larger new and regeneration developments must be affordable housing. Many cities have set a positive example for such initiatives (see Box 6).

#### Box 6: Vancouver's strategy to provide land for social housing

The City of Vancouver has the highest house prices in Canada, growing demand for affordable housing and significant land constraints due to its unique geography. The City has 21,000 units of social housing and several land-related policies to increase its social housing stock.



*Lease of City-owned land.* Over one-third of all social housing in the City is on City-owned land. Projects primarily serve seniors and families with children. Other projects serve the disabled, low-income singles, aboriginals and youth. They are operated by non-profit housing societies and cooperatives using funds from senior governments.

*Purchase of sites.* In 1981, Council made the purchase of privately-owned land for social housing a priority. Generally, the purchased land is leased to non-profit societies and co-operatives for 60 years at 75% of market value. In recent years, the City has provided land leases at no cost for some projects.

*20% social housing requirement.* Beginning in 1988, the City has required that major rezonings of lands to multifamily residential use include 20% social housing. This policy encourages the creation of balanced communities and provides opportunities for low and moderate income households to live in comprehensively planned neighbourhoods. This policy has created a capacity for 2,500 social housing units.

*Affordable Housing Fund.* Established in 1981 by City Council, the Fund provides grants for social housing projects developed on City-owned land. By the end of 2003, Council had approved over \$40 million in subsidies from the Fund.

Source: City of Vancouver, Housing Centre, 2007

In transition countries, the devolution of housing policy responsibilities to the local level in the context of central government cut backs has created significant challenges for the provision of land for affordable housing. The process is also constrained by land privatization, unclear property rights and inefficient land administration systems. The scale of land tenure transformation has been very dramatic, particularly in CIS countries where private ownership over urban land was non-existent. For example, in the Russian Federation over 50 million people and legal entities have acquired private ownership of land and 129 million hectares of land, comparable to the area of Western Europe, has become privately owned just within 4 years (ECE, 2002).

In addition to a dynamic process of land ownership transformation, the supply of land for affordable housing is often constrained by the lack of effective land-use planning to guide development. Fifteen years later, evidence suggests that most urban markets have become more fragmented, reflecting differential opportunities for development and profit. Land barter deals, very common at the start of the transition, have lost their attractiveness, but land prices in the capital cities and growth centers have increased. The myriad of ownership arrangements has created significant barriers for the efficient operation of urban land markets contributing to the growth in land prices. In some CIS countries urban land is auctioned by municipalities, reportedly under procedures that are not very transparent. The supply of serviced residential land is also constrained by local governments' lack of capacity to finance necessary infrastructure. Typically, cash-constrained municipalities shift infrastructure costs to the developer. These developments are accompanied by the occupation of agricultural land in the urban periphery and the growth of informal settlements where the combination of inefficient administrative systems and urban poverty has created 'informal cities' with hundreds of thousands of new residents in Albania, Georgia, Azerbaijan, Tajikistan, and Serbia (Tsenkova, 2006).

## 5 ADDRESSING PROBLEMS OF MANAGEMENT IN PRIVATIZED MULTIFAMILY HOUSING

In the privatization aftermath, the management and rehabilitation of multifamily housing is potentially one of the largest problems facing municipalities in countries in transition, since failure to carry out repairs will result in massive structural problems in more than 40% of the urban housing stock. Recently, most countries have introduced laws to regulate the operation of homeowners' associations, but the implementation has been very slow and inadequate. The management of privatised multifamily housing has three significant challenges—organisational, social and financial which will be reviewed below.

**Organisational and technical challenges.** The collective form of privatised housing from the past has a critical effect on housing management, not only in terms of institutional and legal challenges, but more importantly related to its management. Every observer in the region concludes that the deterioration process in parts of the urban stock has reached a critical stage. Panel technologies, which featured prominently in Russia, Lithuania, Bulgaria, Moldova and Romania, resulted in large scale developments with demanding requirements for their housing management. Although most urban multi-apartment housing is new, its initial quality was not very high. Subsequently, inadequate investment in maintenance as well as deferred capital repairs have aggravated the technical problems with leaking roofs, obsolete installations, elevators and poor wall insulation (ECE, 2002). Furthermore, the accelerated privatisation of the housing stock often transferred ownership of the apartments while municipalities were left with the ownership of buildings, land and common areas. Mixed ownership is also an issues in countries such as Latvia, Russia and the Czech Republic where owners and tenants live in the same building (Tsenkova, 2005).

Studies indicate that despite the effort to establish an adequate legal framework for the operation of homeowner's associations, new owners are reluctant to take over these responsibilities and currently have less than 20 percent of the multifamily stock. Municipal maintenance companies still manage privatized housing under contractual obligations at locally controlled prices. In addition, the level of housing related services (water, energy services, district heating, garbage collection and waste management) has declined because of subsidy cuts, rapidly escalating costs and massive arrears with respect to utility costs (see Box 7). As a result of these processes not only the public services have deteriorated, but the normal maintenance of the housing stock has also accumulated a huge backlog (ECE, 2007; World Bank, 2006).

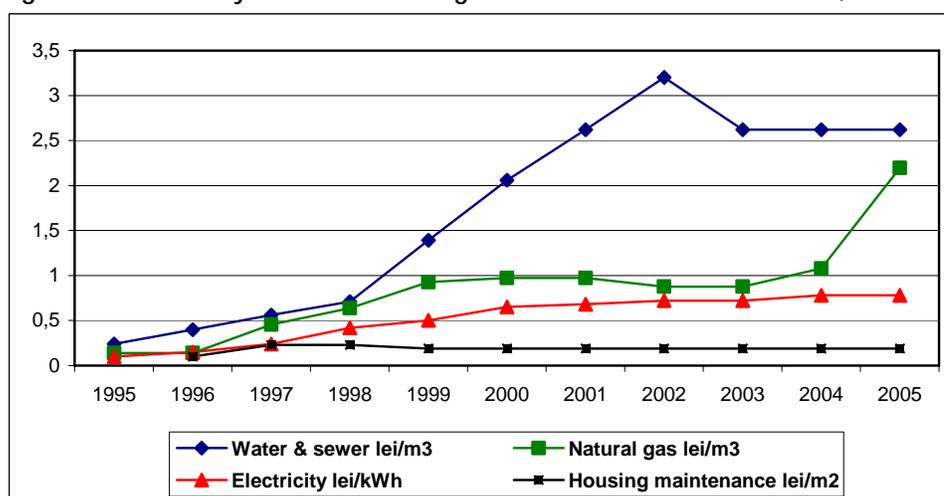
#### Box 7: Multi-apartment housing in Azerbaijan

Reforms in housing and communal services remain incomplete. In the early transition years, privatization of apartments created a new group of owners, who acquired the benefits of apartment ownership without fully assuming the responsibilities. State-set maintenance tariffs are too low, and are not augmented with other funds, so apartment buildings continue to deteriorate. The current institutional framework requires both maintenance and capital repairs to be provided by the state through its Housing and Communal Services Departments (ZhEKs). Without adequate financing, ZhEKs cannot provide routine maintenance, but instead provide a form of catastrophic insurance. If the roof falls in, for example, then the ZhEKs will repair or replace it at no charge. World Bank, 2006

**Social constraints.** In most of the cases multi-apartment buildings have a social mix inherited from the previous system of housing allocation. Income and labour market inequalities in recent years have led to an impoverishment of the homeowners, which is one of the reasons for the poor maintenance of multi-apartment buildings. The cost of housing related services and utilities has increased in real terms, but quite unevenly: energy costs and central heating costs increased the most, crowding out other expenditures. The rapid growth in utility costs in many countries resulted in accumulated arrears. In the absence of support for housing and utility services, more affluent owners have continued to subsidize their neighbours and to finance urgent repairs. Others have just cut back on individual consumption, such as central heating.

Despite different coping mechanisms, arrears are wide spread and the lack of payment discipline – common. Studies have reported lack of respect for the law as well as refusal to pay regular contributions for the maintenance and modernization of common areas in privatized residential buildings (ECE, 2002; 2005). Time series data on housing costs from 1995 to 2004 in Chisinau illustrate these trends (Figure 14). First, costs for housing maintenance and management have remained the same and were not even adjusted for inflation. Second, expenditure on utilities is much higher than spending on maintenance, particularly for water and central heating, which due to elimination of energy subsidies has increased disproportionately in the last few years. Third, the tariffs for maintenance are too low so households do not pay the true costs for services. At the same time, the government lacks sufficient funding to make up the difference. The outcome is inadequate investment to sustain the quality of privatised housing assets.

Figure 14 Utility Costs vs. Housing Maintenance Costs in Chisinau, 1995-2004



Source: Author's estimates based on data by Housing Department of Chisinau Municipality, 2006

Financial constraints. Lack of adequate financing is considered a major constraint for asset management. While recent years have introduced a budgetary discipline and more transparent and accountable budgetary processes, chronic underinvestment in maintenance has left owners with major technical challenges. The requirements for major repairs and improvements after 10 years grow exponentially. In most of the cases multi-apartment building have reached this critical stage in the lifecycle assessment where a major infusion of capital will be needed to bring them back to standards. The buildings have poor quality and the current stream of revenues does not ensure sufficient funds for renovation and improvement of the building envelope (roof, foundations, elevation, etc). Renovation planning is also problematic within the context of unclear financial and management responsibilities. Furthermore, in addition to the traditional technical and organizational challenges, it is difficult to borrow funds for major improvements. Banks often request individual owners to sign a mortgage or a loan contract, which makes the process extremely cumbersome and costly. Lending institutions have not developed any products for renovation of multi-apartment housing and the high interest rates certainly discourage borrowing.

The financing of rehabilitation requires specially designed credit lines and some incentives (tax exemptions, rebates, etc) to facilitate the process. Very few countries have launched programs to assist this process. The Czech Republic is a notable exception, despite the small outreach of its panel renovation programs (see Box 8). The key issue is mobilization of funds, savings (including intergenerational savings), loans and mortgages to pay for rehabilitation and renewal. Various mechanisms can be used to encourage financial institutions to develop competitive products (state guarantees, shallow subsidies, insurance). This needs to be complemented by targeted subsidies and reversed mortgages for low income owners to allow renovation measures to proceed at a large scale for the whole building.



#### Box 8: Housing rehabilitation programs in the Czech Republic

The Czech Republic has launched two programs since 2001 aiming at the rehabilitation of multi-apartment panel housing, which makes up 57 percent of the housing stock. The programs support individual projects as well as regeneration of panel housing estates. Low-cost credits and subsidies fund up to 70 percent of the costs, while homeowners, cooperatives and municipalities provide matching funds. Most of the borrowers (85-90%) are housing cooperatives and homeowners' associations. So far the programs have assisted the rehabilitation and energy efficient retrofitting of less than 8 percent of the panel housing (Source: Ministry of Regional Development of the Czech Republic, 2007).

## 6 PROVISION OF AFFORDABLE HOUSING THROUGH URBAN REGENERATION

A number of countries in the ECE region address the provision of affordable and adequate housing through area-based urban renewal and regeneration programs. Commitments at the national level, particularly in Western Europe, have created a supportive framework for local action (Kleinhans et al, 2007). A large number of local authorities have managed to create coalitions and partnerships to increase the supply of affordable housing and to assist vulnerable groups through urban regeneration projects (Tsenkova, 2004). Local governments, working in partnership with non-profit housing providers and community groups, have experimented with inner city regeneration, brownfield and waterfront redevelopment schemes. The search for effective strategies for urban regeneration to create a social mix, increase the supply of affordable housing and facilitate investment and improvement of existing infrastructure has promoted new models (Kleinhans et al, 2007; Förster, 2006). Urban regeneration has challenged social housing providers to develop a new repertoire of instruments dealing simultaneously with physical deprivation and social exclusion in local communities. This concept had a big impact on French housing policies in the 1990s, re-appearing as a solution to the problem of social exclusion. The main idea was to encourage

living-together, sharing the same building, the same urban area "quartier" by people coming from different social, cultural and economic backgrounds. The legislative framework has strongly encouraged, thanks to taxation, local authorities to build 20 percent social and/or affordable housing for each new housing project (Loi SRU, 2000). This approach to social inclusion through housing policies in an era of increasing socioeconomic polarisation in wealthy societies has been particularly challenging to implement as recent experiences in some of the Paris suburbs and elsewhere in France indicate.<sup>13</sup>

**Box 9: Dutch urban regeneration: focus on deprived neighbourhoods**

The national *Big Cities Policy* assists the four largest cities in the Netherlands to respond to problems of high unemployment, crime, polarization and growing spatial concentrations of low-income households and ethnic minority groups, as well as the physical problems often found in social housing. The *Big Cities Policy* rests on three pillars: (i) the economy and employment; (ii) the physical infrastructure; and (iii) the social infrastructure. Funding is used in an integrated manner to improve the quality of urban space, to create more jobs and to eliminate social exclusion in neighbourhoods. This area-based approach focuses on deprived neighbourhoods and contributes to social cohesion through measures implemented by residents, government bodies (local authority, police, social welfare organizations), housing associations and local employers. Source: van Kempen, 2000



A recent policy shift has targeted 40 neighbourhoods in the four largest cities for the implementation of area-based regeneration measures. In Amsterdam, where more than half of the housing is social, non-profit housing associations own 205.000 social rental dwellings. While these are distributed across the city in every district, a fair share is concentrated in post-war neighbourhoods such as the Western Garden Cities and the Southeast indicated on the spatial map of social housing. Over time these areas have become less desirable places to live with social exclusion and poverty manifested in a number of ways, although housing is in good condition. The new wave of government investment leverages contributions from the housing associations and aims at creating a social mix of rental and owner-occupied housing. Less popular high rise apartments in the target neighbourhoods are demolished and replaced by medium density dwellings often in mixed ownership neighbourhood blocks. Housing allowances continue to support low income households and displacement is managed through reallocation programs of the housing associations active in the neighbourhood.

Urban renewal programs exist in most European cities with an aging housing stock and substandard housing in inner city areas. Vienna, Manchester, Copenhagen, Barcelona and

<sup>13</sup> The full reference to Loi SRU: solidarite et renouvellement urbain can be found at:  
<http://www.legifrance.gouv.fr/WAspad/UnTexteDeJorf?numjo=EQUX9900145L>  
<http://carolinelevron.free.fr/sociologie/loi.sru.memoire.maitrise.socio.rtf>

Lisbon are well known for their successful 'soft renewal' practices and strategic approaches to the social, economic, cultural, and environmental factors behind the process. Recent urban renewal programs place a particular emphasis on public/private partnerships as the delivery mechanism as well as on public involvement and participation in defining priorities for the area or neighbourhood. Attempt is made to reduce displacement as well as to avoid forced change of ownership, social segregation and gentrification (Atkinson, 2000; Donner, 2000).

#### Box 10: Vienna's Urban Renewal Program

In Vienna where half of the housing stock is social housing, subsidies are an important aspect of the city's urban renewal program. The amount of subsidies granted for a particular project are dependent on the standard of the existing building, but can be up to 90% of total construction costs. This also includes an allowance for low-income households to reduce short-term costs involved with renovations. The renewal is followed by a controlled and limited rent increase for 15 years to cover any loans required. Any type of building is eligible for a renewal (construction) subsidy, including private rental and owner-occupied.



www.wien.at

Source:

One such example is Gasometre City, a brownfield redevelopment around four large gas tanks built in 1899, but have been unused since 1986. Vienna decided this would be a project to spearhead development in this previous industrial area. The new multi-functional area with 620 units of subsidized housing, 250 student hostel units, 47,100 m<sup>2</sup> of commercial space, offices and a theatre has become the catalyst for the redevelopment of the whole neighbourhood.

## V RECOMMENDATIONS

The comparative analysis identified major challenges in the provision of affordable housing in the 56 countries of the UNECE region and policy responses to address the critical needs of vulnerable groups in a more effective and efficient manner. Despite overall improvement of housing conditions in most of the countries, lack of progress in several critical areas remains a major concern—growing affordability problems, homelessness, limited social housing provision and land shortages in high growth areas. Drawing on the experience of different countries and cities in the region, it is clear that housing policy changes are urgently needed to ensure that access to adequate and affordable housing becomes a priority. Despite the fact that comprehensive and long-term changes in housing policies have been, and will continue to be, very difficult and controversial, urgent action is needed by national, regional and local governments. Recognising the diversity of countries in the region and the specifics of their housing systems, it is particularly challenging to provide broad recommendations for change. However, the following six directions reviewed below should become a priority.

**Address affordability constraints.** *Affordability of housing remains the fastest-growing and*

*most pervasive housing challenge in the UNECE region.* Housing costs have increased with significant implications for access to adequate and affordable housing, particularly for vulnerable groups. While the data are limited, it appears that countries with higher homeownership rates and limited tenure choice tend to have a higher share of households experiencing affordability problems. Furthermore, the situation appears to be more problematic in urban areas where higher prices for housing and concentration of poverty create cumulative disadvantages. Under the new subsidy regime, subsidies focus on owner-occupation. Meanwhile, demand-based subsidies to low income renters have failed to keep pace with the rising housing costs. In most transition countries such assistance is non-existent and where it has been launched (e.g. The Czech Republic, Poland, Romania, Estonia and Latvia), it is inadequate. A major change in housing policies needs to address affordability constraints of the urban poor and socially vulnerable groups through an appropriate and targeted subsidy system.

**Emphasize strategic approaches to the provision of affordable rental housing.** While affordability constraints are growing, less social housing is being provided for low income households. In Canada and the United States a handful of local governments have had the political will to overcome some of the barriers to development of affordable housing. In Western Europe, the data suggest that in countries where the sector is significant, there is an ongoing commitment to maintain adequate supply. Austria (30%), Denmark (20.7%) and Sweden (16%) have the highest rates of new social housing production, followed by Finland, UK and the Netherlands with rates in the range of 12 percent. Several transition countries (Poland, the Czech Republic and Slovakia) have initiated new social housing programs in recognition of their importance for marginalized groups in society.

In the context of general reluctance to commit funds for affordable rental housing in most countries in the UNECE region, a number of local governments have experimented with density bonusing, inclusionary zoning, land trusts and land lease arrangements to increase the availability of land supply for affordable (social) housing. These good practices, in addition to efforts to increase the supply of rental housing through shallow subsidies and/or through incentives for private sector investment, are critical for the improvement of tenure choices and mobility options. These housing policy shifts are particularly critical for countries with polarized tenure systems and high rates of homeownership in the region.

**Advance comprehensive approaches to homelessness.** Homelessness across the UNECE region is a serious challenge. Close to 600, 000 people are homeless in the European Union and more than 750,000 in the United States. In a handful of countries a complex strategic policy response is being adopted to homelessness, coordinating various policy fields, services and measures. In other cases, homelessness is not even recognised as a policy problem, and/or fragmented measures are adopted. Most transition countries have seen unprecedented increase in homelessness in large urban areas as well as rising demand for overnight shelters. While preventative approaches are particularly important, policy action needs to focus on legislative and funding opportunities to build a continuum of housing for a variety of needs, from temporary shelters to permanent, non-profit housing co-operatives.

**Mobilize global and local efforts to address the housing crisis of refugees and displaced people in the region.** Across the region, internal displacement continues to be a major problem directly related to housing in the Balkans, the Caucasus, Turkey and Cyprus, where the number of IDPs stands at 2.8 million. A crucial element underpinning the sustainable return of refugees is the effective implementation of the right to property, education, housing, health care and employment as an integral part of the overall strategy of stability in countries affected by the refugee and IDP crisis. Often households have spent more than 15 years in

camps and temporary shelters without any hope for sustainable return. Developing housing for so many extremely low-income households is difficult without multiple subsidies and complex financing packages, and in most cases is clearly beyond the capacity of national or local governments. While there are a lot of different small scale projects supported by the international community, without capital subsidies to fill the gap, the existing programs cannot adequately serve the poor refugees. Furthermore, other schemes, such as site and services options, might be more appropriate in some cases mobilizing self-help and incremental household investment.

**Expand the provision of affordable housing through urban regeneration.** In response to concentration of poverty in certain neighbourhoods and patterns of social exclusion, a number of countries in the region address the provision of affordable and adequate housing through area-based urban renewal and regeneration programs. Local governments, working in partnership with non-profit housing providers and community groups, have experimented with inner city regeneration, brownfield and waterfront redevelopment schemes. The search for effective strategies for urban regeneration to create a social mix, increase the supply of affordable housing and facilitate investment and improvement of existing infrastructure has promoted new models and a new repertoire of planning instruments to deal with social inclusion. This approach to social inclusion through housing policies in an era of increasing socioeconomic polarisation in wealthy societies has been particularly challenging to implement. In this context, it is particularly important to *establish mechanisms to share achievements and good practices promoting the provision of affordable housing through area based urban regeneration*. The European Union is also stepping its financial support for these initiatives through URBAN II European Regional Development Fund contributions and other co-financing mechanisms such as *The Joint European Support for Sustainable Investment in City Areas* (JESSICA).

**Address the problem of management and deterioration of privatised multifamily housing.** In the privatization aftermath, the management and rehabilitation of multifamily housing is potentially one of the largest problems facing municipalities in countries in transition, since failure to carry out repairs will result in massive structural problems in more than 40 percent of the urban housing stock. Recently, most countries have introduced laws to regulate the operation of homeowners' associations, but the implementation has been very slow and inadequate. The management of privatised multifamily housing faces three significant challenges—organisational, social and financial which need to be systematically addressed. Countries in transition need to introduce both legal and institutional policy changes to improve the management and renovation of multifamily housing, as well as launch a combination of mortgages and small subsidy programs to leverage investment by homeowners.

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## ANNEX

### Housing Availability Indicators in the UNECE Countries

Country	Year	Dwelling Stock	Housing Units /	Average No	Year	Average Dwelling
			1000	Persons /		
			2004	2004		
<b>Western Europe &amp; North America</b>						
Austria	2004	3,429	421	2.4	2003	93.9 <sup>k</sup>
Belgium	2004	4,820	409	2.0	2001	81.3
Cyprus	2002	299	415 <sup>*</sup>	2.6 <sup>*</sup>	na	na
Denmark	2004	2,461	456	2.0 <sup>c</sup>	2005	113.1
Finland	2004	2,634	503	2.1	2002	77.0
France	2005	30,586	513	2.3	2002	89.7 <sup>h</sup>
Germany	2004	39,363	477	2.2 <sup>c</sup>	2002	89.7
Greece	2002	5,455	500 <sup>*g</sup>	2.8 <sup>*</sup>	2001	81.3 <sup>l</sup>
Ireland	2003	1,554	400	2.9	2003	104.0
Italy	2001	27,292	479 <sup>*g</sup>	2.6 <sup>*</sup>	2001	96.0
Luxembourg	2004	176	391	2.6	2001	125.0
Malta	2000	127	331 <sup>*</sup>	3.0 <sup>*</sup>	2002	106.4
Netherlands	2005	6,810	422	2.4	2000	98.0
Norway						
Portugal	2003	5,318	482 <sup>*g</sup>	2.9 <sup>*c</sup>	2001	83.0 <sup>h</sup>
Spain	2001	20,947	462 <sup>*</sup>	3.0 <sup>*</sup>	2001	90.0 <sup>i</sup>
Sweden	2004	4,380	486	2.1	2005	91.5
Switzerland						
United Kingdom	2004	25,300	430 <sup>*</sup>	2.3 <sup>*f</sup>	2001	86.9
Canada						
United States						
<b>North America</b>						
<b>Central and Eastern Europe</b>						
Albania	2001	780.0	254.0		2001	67.0
Bosnia & Herzegovina	2002	950.0				
Bulgaria	2001	3'68	465.0		2001	63.0
Croatia	2000	1850.0				
Czech Republic	2005	4,505	438	2.6 <sup>*d</sup>	2001	76.3 <sup>j</sup>
Estonia	2004	626	463	2.5 <sup>*</sup>	2003	60.2
Hungary	2005	4,173	423 <sup>b</sup>	2.5	2001	75.0
Latvia	2005	987	403.0		2003	55.4
Lithuania	2003	1,292	375 <sup>*</sup>	2.7 <sup>c</sup>	2003	60.6
FYR Macedonia	2002	690.0	343.0		2002	71.0
Montenegro						
Poland	2002	11,633	314	3.1	2004	69.0
Romania	2002	8100.0	373.0			37.0
Slovak Republic	2004	1,711	318	3.2 <sup>o</sup>	2001	56.1
Slovenia	2004	798	408 <sup>a</sup>	2.4 <sup>a</sup>	2004	75.6
Serbia	2001		366.0		2001	67.0

- Notes:
- a. Citizens of the Republic of Slovenia, excluding those temporarily living abroad
  - b. 2005 for 2004
  - c. DE: 2002; GR: 2001; LU: 2002; PT: 2001
  - d. Population in permanently occupied dwellings (household), Population and Housing Census 1.3.2001
  - e. Average number of persons per occupied dwelling stock, expert estimate
  - f. Excluding persons in communal establishments
  - g. GR: 2001; IT: 2001; PT: 1999
  - h. Permanently inhabited dwellings only
  - i. Estimate. Census (main dwellings)
  - j. Permanently occupied dwellings only, Population and Housing Census 1.3.2001
  - k. Main residencies only (Micro census)
  - l. Population and Housing Census 2001

Source: Federcansa, Italian Housing Federation, eds. (2006). *Housing Statistics in the European Union 2005/2006*. Ministry of Infrastructure of the Italian Republic, P. 52, 60, 67.

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