# Comparative Perspectives on Urban Housing Conditions[1]

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## Introduction

The analysis gives a brief overview of the conditions and trends of urban housing development in the Central, Eastern and Southern European region, concentrating on the period between 1993 and 1998[2]. This sub-regional profile uses the following grouping of countries/cities:

- Central East European EU candidate countries: Czech Republic (Prague, Brno), Hungary (Budapest), Slovenia (Ljubljana), Estonia (Tallinn), Latvia (Riga), Lithuania (Vilnius).
- South East European countries: Croatia (Zagreb), Bosnia and Hercegovina (Sarajevo), Yugoslavia (Belgrad), Albania (Tirana), Turkey (Ankara).
- Other East European countries[3]: Belarus (Minsk), Moldova (Chisianu), Georgia (Tbilisi), Armenia (Yerevan), Kyrghyzstan (Bishkek), Kazakhstan (Astana).

The objective of the analysis is to highlight the most significant aspects of change in the housing conditions of cities under study in the sub-region. We have focused on tenure transformation and affordability of housing with a particular emphasis on differences and similarities in these processes of change. The methodology used draws on the HABITAT urban and housing indicators. Data was collected by local experts in 18 cities in the sub-region under the methodological guidance of the Metropolitan Research Institute (MRI), Budapest. The following sections address patterns of tenure change, affordability of housing as well as emerging policy challenges associated with growing poverty.

## Urban Population Growth Patterns

The urban population of the East Central European region is around 60-62 per cent of the total (see Table 5.1). This urbanization level is 10wer than the one in the European Union, where 80 per cent of the population is living in cities. Even so, urban issues are important, affecting the life of almost two thirds of the population of the East Central European countries.

**Table 5.1 Urban Population**

| Country Data | The share of the population of urban areas in the total population of the country (%) | |
|---|---|---|
| | **1993** | **1998** |
| EU Candidate Countries | 68.0 | 67.9 |
| South East European Countries | 57.6 | 62.8 |
| Other East European Countries | 57.2 | 56.6 |
| All East Central European Countries | 59.6 | 62.0 |

[1] In: Stuart Lowe and Sasha Tsenkova (eds.): Housing Change in East and Central Europe Integration or Fragmentation? Chapter 5, pp. 73-80. Ashgate, 2003

[2] The Metropolitan Research Institute in Budapest has been contracted by UNCHS/Habitat to collect information for 25 large cities of the East Central European region. The area to be surveyed covered the whole geographical region, except for Poland, Bulgaria and Russia. Eighteen cities participated in the project, sending the necessary information. The collection of indicators was organized by Eszter Somogyi. The data presented in this chapter is based on the survey results.

[3] The East European region presented a number of challenges for the indicator collection. The major reason for these difficulties is the lack of reliable data. Habitat, in coordination with other international organizations, should strengthen capacity building activities in this part of Europe, helping ministries and local authorities in the establishment of data-bases and analyzing capacities.

The cities under investigation in this study have a total population of 18 million. As Table 5.2 indicates the dynamics of population change (natural growth/decline and migration balance) was in the last five years quite different in the three subregions. Population growth is noticeable in the South East European region, mostly attributed to Turkey and Albania, while the total population in the other two regions is decreasing. However, metropolitan areas continue to attract new residents thus contributing to suburban expansion, particularly in the South East European cities.

**Table 5.2 Urban Population Dynamics**

| Cities | Year | Metropolitan population (millions) | Urban agglomeration | National urban population | National total population |
|---|---|---|---|---|---|
| EU Candidate Countries | 1998 | 5.7 | | | |
| 1993-1998 % change | | -1.1 | (-0.9) | 1.0 | -0.1 |
| South East European Countries | 1998 | 6.5 | | | |
| 1993-1998 % change | | 2.4 | (1.8) | 3.8 | 2.3 |
| Other East European Countries | 1998 | 6.1 | | | |
| 1993-1998 % change | | 1.1 | (2.4) | -0.5 | -0.4 |
| All East Central European countries | 1998 | 18.3 | | | |
| 1993-1998 % change | | 0.9 | (1.0) | 3.6 | 2.5 |

## Tenure Transformation: Differences and Similarities

The data on tenure structure show the dramatic changes in the housing sector in the 19908. Within five years the share of the rental sector decreased from half to a quarter of the housing stock in the cities under review. In other words, from the approximately six million dwellings, almost 1.5 million have been privatized within five years. By comparison, in the large cities of the European Union the share of the social rental sector is around 24 per cent, with another 30 per cent of households living in the private rental sector (European Commission, 2000, p. 25).

**Table 5.3 Changes in Tenure Structure**

| Cities[a] | Pop. 1998[b] | Tenure structure of the housing stock, 1993 (%) | | | Tenure structure of the housing stock, 1998 (%) | | |
|---|---|---|---|---|---|---|---|
| | | Owner occupied | Rental | Other | Owner occupied | Rental | Other |
| EU Candidate Countries | 5.7 | 40.2 | 58.1 | 1.6 | 54.5 | 42.4 | 3.1 |
| South East European Countries | 6.6 | 50.4 | 38.6 | 10.7 | 72.7 | 21.4 | 5.5 |
| Other East European Countries | 6.1 | 36.7 | 52.9 | 10.3 | 75.3 | 18.2 | 2.9 |
| All East Central European Countries | 18.4 | 42.4 | 50.0 | 7.4 | 67.9 | 26.9 | 3.9 |

[a] Country-group averages are weighted by the population number of the cities.

[b] Population in millions.

Table 5.3 shows the differences in the patterns of privatization among the subregions. In the group of the EU Candidate countries privatization was a relatively slow process. The average of the South European group conceals some of the dynamics, since rapid privatization in most of these cities has been partly counterbalanced by the opposite trend in Ankara (the largest city in this group), where the share of the rental sector increased during the same period. Finally, the other East European sub-group shows the biggest decline in the share of the rental housing. In some of the cities the pace of change was unprecedented: the share of rental housing in Tallinn declined from 75 to seven per cent; in Belgrade from 59 to 12 per cent; in Tirana from almost 100 to five per cent; and in Yerevan from 86 to three per cent. These cities changed from tenant-dominated into property-owning societies within half a decade.

Within that context, the crucial question is the link between the change of tenure status and the other aspects of life: to what extent the new owners belong to the winners or the losers of the transition process regarding the other aspects (employment, income, etc.). Although many of the new owners belong to the middle class - the rental sector of the communist cities was very much balanced between the different income categories - a high share of them are poor. Among the millions of new owners privatizing their flats, hundreds of thousands can not bear the burden of ownership and fall into arrears with some of the payment duties.

The number of reported eviction cases, all together less than five thousand from ten cities that submitted data for 1998, is negligible compared to the surmounting number of families in serious arrears with their payments[4]. Therefore one of the biggest problems of the post-communist cities is the future of the run-down multifamily housing stock inhabited by poor owners.

## Affordability of Housing

Most contributors to the database emphasize the importance of housing affordability in their countries, both regarding privately owned and rental units.

The quantitative answers on the questions related to the costs of housing and household incomes are summarized in per cent higher in the latter group.

Comparison of house price changes in the latter group. Comparison of house price changes indicates a rapid increase of real estate prices in the EU applicant cities and stagnation in the South East European cities (see Table 5.4).

*Affordability of Home Ownership*

The ratio of house-price-to-income is used to highlight changes with respect to affordability across the region.

*Household incomes* Changes in household incomes tell a lot about the transition of the East Central European countries and cities. In 1993 the incomes in the EU candidate group were lower, compared to the South East European cities. This has changed by 1998: the 43 per cent increase in household incomes due to the quick economic development of the EU applicant cities was much higher than the moderate seven per cent increase in the war-hit South East European sub-region.

Within both groups there are, of course, internal differences:

- The pace of income growth of the Baltic cities, starting from a very low level, surpassed that of the Central European capitals.
- A very quick recovery can be seen in Zagreb, which is strongly counterbalanced by the decrease of incomes in Ankara.

[4] The low rate of eviction can be explained by the lack of adequate legislation that deals with eviction measures, but also with the lack of systematic enforcement procedures. The issue is related to the difficult topic of housing rights. Three of the countries under review (Latvia, Yugoslavia, Georgia) denied the existence of legislation for the full and progressive realization of the right to adequate housing. The interpretation of that right, however, is not easy, due to wide variations on the theme. In particular, in East Central European cities one could expect a less demanding definition of this right (see Tosics and Erdősi, 2001 for additional clarification on this point).

Income level in the other East European cities was 25 per cent of the regional average in 1998, with some cities (Chisinau, Yerevan) developing a lot faster than others (Tbilisi).

*Real estate prices* Although cities of the EU candidate countries are economically more developed than the South East European cities, median house price is 50 per cent higher in the latter group. Comparison of house price changes indicates a rapid increase of real estate prices in the EU applicant cities and stagnation in the South East European cities.

**Table 5.4 Costs of Housing and Household Incomes**

| | Median house price[a] | Median rent[b] | Median annual household income | Median annual household income, tenants | House price to income | House rent to income |
|---|---|---|---|---|---|---|
| **1993** | | | | | | |
| EU - Cand. Countries | 20,553 | 262 | 3,965 | 3,897 | 5.6 | 0.05 |
| South East European | 30,302 | 1,202 | 4,204 | 3,172 | 9.2 | 0.41 |
| Other East European | 8,368 | 285 | 585 | 581 | 11.6 | 0.23 |
| All CEE | 19,755 | 578 | 2,936 | 2,572 | 8.7 | 0.23 |
| **1998** | | | | | | |
| EU - Cand. Countries | 27,005 | 1,191 | 5,656 | 5,609 | 5.0 | 0.24 |
| South East European | 31,926 | 1,751 | 4,504 | 4,602 | 8.0 | 0.39 |
| Other East European | 8,181 | 220 | 907 | 1,022 | 10.4 | 0.17 |
| All CEE | 22,530 | 1,070 | 3,668 | 3,727 | 7.9 | 0.27 |

[a] Median house price (in US$) refers to median market price of a dwelling unit, including all units in the urban area - new and old, formal and informal.

[b] Median rent (in US$) is the annual amount paid for rental services excluding all utilities.

*House-price-to-income* The house-price-to-income indicator shows improvement between 1993 and 1998 - a change from 8.7 to 7.9. All three sub-regions show similar improvement, which means that the indicator continues to have higher values for the other East European cities compared to the ones in EU candidate countries. The internal differences between cities classified in the same group are significant[5].

- cities of EU applicant countries: 3.6 - 8.2.
- cities of South East European countries: 4.5 - 14.3.
- cities of the other East European countries: 4.0 - 27 .1.

By comparison, in the large cities of the European Union the average ratio of house price to annual household income was 5.8 with variations between 2.4 to 13.3 (EC, 2000, p. 25).

[5] The indicator measures the number of years of total household income necessary to obtain a median price house.

*Land price-to-income* This is an important indicator related to the affordability of new housing for owner occupation. Information on land prices is scarce, particularly in the former Soviet Union countries where private ownership of land was recently introduced. The available land price-to-income data show big differences between the EU candidate and the South East European cities with the land price to income ratio being 5-8 times higher level in the latter group. Many factors may contribute to this difference, e.g., suburbanization in most Central European metropolises (for a discussion see Tosics, 2001).

*Affordability of Rental Housing*

There are big differences between the countries regarding the median rent level, reflecting the extent of rent control in the public sector, but also the share of a private rental sector, which might range from negligible to significant. According to the data, rents are particularly high in Ljubljana, Vilnius, and Zagreb.

The income differences between owner and tenant households would be an important indicator shedding light on the differences in rental housing policies. Theoretically two models can be identified:

- If there is no big difference between the incomes of owners and tenants, rental housing policy can be labelled 'comprehensive', being open to all population groups.
- If there is a substantial difference between the incomes of owners and tenants, rental housing policy can be labelled 'restrictive', being open only for the lower income population group.

The data, unfortunately, do not reflect this differentiation. Due to the lack of precise information, in most cases the same income level was assumed for owners and tenants. This does not reflect the reality in many cities, where a small public rental sector houses the most disadvantaged and poorest households. We feel that the house-rent-to-income indicator does not exactly show the real situation. It demonstrates a slight increase - from 0.23 to 0.27 in the five-year period, mostly attributed to cities in the EU candidate countries. By comparison, in the large cities of the European Union the average ratio of weekly social housing rents to weekly household incomes was 0.1 (EC, 2000, p. 25).

*The house rent-to-income ratio* does not show the level of housing expenditures to incomes. First, it excludes utility payments that might be substantial. In fact, in many of the Central European countries utility prices have been increased to world market level, while rents have remained low. Second, a system, of housing allowances, in some cases covering utilities as well, might ease the burden of tenants and make rental housing more affordable.

## Poverty and Housing: Policy Challenges

Poverty has become a growing concern for policy makers in transition economies. The data indicate that the number of poor households has not changed substantially in the last five years and continues to be higher in lower income countries. To measure poverty, a poverty line has been established according to local circumstances, i.e. average household income is around 300, 200 and 128 USD/month for the first, second and third sub-group of countries. Close to a quarter of the households in the cities under investigation are poor, in other words 1.3 million households, which translated into approximately 4.2 million people.

**Table 5.5 Urban Poverty***

| Cities | 1993 | | | 1998 | | |
|---|---|---|---|---|---|---|
| | All households (thousand) | Poor households (%) | Poor households (thousand) | All households (thousand) | Poor households (%) | Poor households (thousand) |
| EU Candidate Countries | 2,270 | 7.5 | 170 | 2,220 | 7.6 | 169 |
| South East European Countries | 1,650 | 25.0 | 413 | 1,720 | 22.2 | 382 |
| Other East European Countries | 1,790 | 41.5 | 743 | 1,870 | 41.4 | 770 |
| All East Central European Countries | 5,710 | 24.4 | 1,326 | 5,800 | 24.1 | 1,321 |

* Author's estimates.

There are substantial differences between the measures undertaken to alleviate poverty in different countries. In some countries poverty is viewed as an urban phenomenon, as urban population is cut from the natural modes of production and consumption, while in others the big cities have the lowest incidence of poverty in the country. Further, countries with the highest poverty level have the !east practical experience with poverty alleviation.

## Concluding Comments

The analysis explored patterns of housing change in cities across East Central European countries focusing on tenure transformation, affordability of housing as well as emerging policy challenges associated with growing poverty. It concluded that the urban housing agenda is important since it affects the life of almost two thirds of the population of the sub-region. Tenure transformation has been the most significant aspect of housing change with a quarter of the six million dwellings being privatized within five years. Overall, home ownership has become more affordable. The house-price-to-income indicator shows improvement between 1993 and 1998 - a change from 8.7 to 7.9, although the internal differences among cities have remained significant. . Despite its limitations to measure affordability in the rental sector, house rent-to-income indicator demonstrates a slight increase - from 0.23 to 0.27 in the five-year period, mostly attributed to cities in the EU candidate countries. This might suggest growing affordability problems for tenant households.

Poverty has become a growing concern for policy makers in transition economies. Close to a quarter of the households in the cities under investigation are poor, which translates into approximately 4.2 million people. Among the millions of new owners privatizing their flats, hundreds of thousands can not bear the burden of ownership. The number of reported eviction cases, all together less than five thousand from ten cities, is negligible compared to the surmounting number of families in serious arrears with their payments. One of the biggest problems of the post-communist cities is the future of the run-down multi-family housing stock inhabited by poor owners.