

HOUSING FINANCE INTERNATIONAL

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Housing affordability in the New Europe

↪ By Wolfgang Amann

1. Introduction

In late 2015, the author contributed a “Housing Review on 15 countries in Europe and Central Asia” within a Habitat for Humanity Housing Review presented at the Third Europe Housing Forum in Berlin in November 2015.

This paper presents the main findings with a focus on housing affordability in the European part of the review area. This comprises nine countries where Habitat for Humanity is present [“HfH 9”]: Hungary, Poland and Slovakia, representing Central Eastern Europe [CEE], Bosnia-Herzegovina, Bulgaria, Macedonia and Romania, which cover South Eastern Europe [SEE], and finally the two CIS countries (Commonwealth of Independent States) Russia and Ukraine. This paper excludes the additional 6 countries of the Caucasus and Central Asia. Data used for this paper are the most recent ones available, in most cases from 2014, if not quoted differently.

2. Living conditions in new Europe

2.1. Incomes

In all former socialist countries transition caused a heavy decrease in economic output and real wages.¹ The recovery in wages and hence of domestic demand developed only slowly during the 2000s. Today, even in the most developed CEE countries, average wages struggle to reach even half of the EU average.

Statistics on wages and incomes are less standardized than other numbers. EU SILC data (Statistics on Incomes and Living Conditions) provides for EU member and candidate states data on equivalent monthly income per capita, which is far below average wages, depending on labour force participation of household members and household size. The average monthly income in the EU28 was €1,315 (2014), but only €400 on average for the 5 EU countries covered in this paper. This is less than one-third of the EU average.

Slovakia, at €570, reaches roughly half of the EU average, Poland and Hungary, with €380 and €445, reach one-third. Similar incomes are documented for Russia. Equivalent monthly incomes in Bulgaria, Romania and Ukraine are between €280 and €160, a fifth to an eighth of the EU average. Of course the income situation of households looks different if one is considering differences in purchasing power in the respective countries.

2.2. Income equality

Equality in society is statistically documented with the inequality of incomes ratio (highest to lowest quintile) and the Gini Coefficient. Both indicators together provide a clear picture on the different regions covered in this paper. In mature Western economies, both indicators provide consistent results. In less mature economies with less reliable data, the indicators in some cases show quite divergent results.

Before transition, most countries of Eastern Europe and the CIS had less inequality of incomes than the OECD average. High levels of social expenditure and low wage differentials meant that the distribution of incomes within those countries was significantly more egalitarian than in most market economies. Economic transition has resulted in a rise in inequality right across the region. However, the size of the increase has varied considerably.²

Today, the EU 28 has an inequality of incomes ratio of 5.2 (Gini Coefficient 31). But some of the highly developed countries have ratios below 4, including some Scandinavian countries and the Netherlands, but also Slovenia, Czech Republic and Slovakia (Gini below 26 each). Poland and Hungary have higher inequality of income ratios but are still below the EU average (Gini for both below 31). SEE countries have much more unequal societies compared with the EU average. The numbers are extreme for Macedonia, with an inequality of incomes ratio of 12 and a Gini Coefficient of 43. Also Romania and Bulgaria have quite high levels, with inequality of incomes ratios of 7 and Ginis of around 35. For CIS countries, the two indicators only partly

coincide. Both indicators show a very good level for Ukraine, with an inequality of incomes ratio of only 3.3 and a Gini of 25. This resembles Scandinavian countries. A much higher level of inequality is found in Russia (Gini of 40).

2.3. Poverty

Statistical data on poverty are widely inconsistent, since the phenomenon of poverty is a question not only of monetary indigence, but also of access to social life and infrastructure. The proportion of people below the poverty line – an indicator based on consumption (or income) levels – is often used, but other indicators are needed to capture other dimensions of poverty. Eurostat, meanwhile, provides reliable data from EU SILC that combines data on incomes, the relative income level in a country, and a set of criteria of social exclusion. But this source is available only for EU member and candidate countries.

In the EU, an average of 24.5% of the population is threatened by poverty. According to Eurostat, threat of poverty is defined basically as being below 60% of median income. As a consequence, this level is generally lower in more equal societies and higher in countries with high income disparities. Cross-country comparisons do not seem entirely reliable, but time-series of individual countries are useful.

For the CEE countries represented in this paper, this results in an average number close to the EU mean. In Hungary, 30% of households are under threat of poverty. In Poland, the current level is 26% of the population, which is on par with the EU average. An impressive success story can be observed in Slovakia, where the rate was at 30% a decade ago but is now below 20%. Poverty is a much more serious issue in the SEE region. In Macedonia, 31% of the population is threatened with poverty, while in Romania, it is 40%, and in Bulgaria, 48%. Slight gains in the fight against poverty can be observed in Bulgaria and Romania.

Most countries have additionally defined national poverty lines, but they hardly qualify for comparative analysis. We make an exception

¹ UNECE 2004: 167.

² UNECE 2004: 165.

for a few of the CIS countries, as they perform a regular Household Living Condition Survey, following a similar methodological basis as EU SILC. In Russia, the fight against poverty was very successful, where in 2000 almost 30% of the population were identified, but in 2013 poverty threatened only 11%.

A converse data concept is a fixed level of individual incomes, neither considering different purchasing power nor price inflation, e.g., people living on less than US\$2 per day, which is one definition used by the World Bank. This concept describes extreme poverty quite well, as under conditions of extremely low incomes, all other aspects of vulnerability become less relevant. Extreme poverty was not an evident problem in the region before transition. It seems to be one of the most humiliating failures of the political process of transition that in several countries this became different. In some CIS countries, extreme poverty was and still is present in everyday life. In most Western European countries, virtually no one lives on less than US\$2 per day. The same is the case for most CEE countries. Only Slovakia has 0.5% and Hungary 0.2% of the population at this income level. The situation is much worse in the SEE region, with 1.6% of the population in Romania and even 3.9% in Bulgaria classified as extremely poor (2011/12). An even higher share of 5.9% was documented for Macedonia, but no data after 2009 are available. In Russia and Ukraine (before the current crisis) extreme poverty was not prevalent anymore.

The total share of extreme poverty in the HfH 9 countries covered by this paper seems like a small percentage, but taking into account that roughly 2.2 million people are concerned, the severity of the situation becomes evident. Data from the past decade give reason for optimism, however, as most countries are successful in fighting poverty. Poverty is closely linked to unaffordability of housing.

2.4. Energy poverty

Energy poverty is defined as “a situation where a household is unable to access a socially- and materially-necessitated level of energy services in the home”.³ The United Nations Development Programme [UNDP] defines this situation as when a household spends more than 10% of its income on energy.⁴ At an EU level, energy poverty went on the official agenda only in 2009, with the Directives 2009/72/EC and

2009/73/EC “concerning common rules for the internal market in electricity and natural gas supply”, followed by the “European Economic and Social Committee opinion on energy liberalization” of 2010.⁵

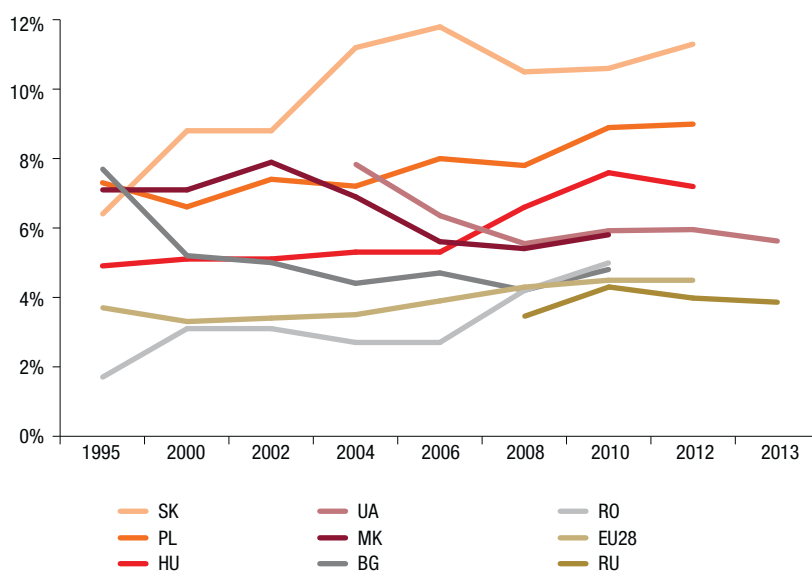
After liberalization of energy markets in most countries, energy prices have in many cases reached Western levels, but household incomes remain far below those of the West. The SEE countries suffer from a “pervasive nature” of energy poverty.⁶ This is mainly connected to the lack of adequate domestic energy services and the limited extent of networked energy infrastructures (gas). This means that energy poverty is on the rise in SEE countries not only because of economic issues, but also because of technical shortcomings. Together with steadily rising electricity prices, this situation means that the only possibility for some parts of the population is to switch to cheaper forms of heating energy, usually firewood.

For many potential candidate countries in the Western Balkans and the CIS region, the EU initiated an Energy Community Treaty in the early 2000s. This supranational initiative is responsible for the biggest part of legislation

on energy efficiency and other issues related to EU energy policy in the region, and also considers social issues.⁷

The usual indicator for the level of energy poverty is the ratio of household energy costs compared to the disposable income of a country's households (Figure 1). Since the liberalization of energy markets in former socialist countries, the increase in energy prices has not been accompanied by a similar rise in income. In Poland, for example, energy costs per household have been rising steadily since 1995 (currently at 9% of household incomes on average). At the same time, levels of poverty have fallen considerably. This suggests that energy affordability is a huge issue among the population and that the reduction of (absolute and relative) poverty is in many countries hardly relieving the pressure of the rising energy costs.⁸ By far, the highest energy cost ratio can be seen in Slovakia, where it has risen from slightly above 6% in 1995 to currently close to 12%. This has to do with harsh tariff reforms. Energy markets in the CIS region are still heavily subsidized. This is one of the reasons why levels of energy cost ratio in some countries is still below the EU 28 average.

Figure 1 Household Energy Cost Ratio



Re.: Data for EU and candidate countries derive from National Accounts; for CIS countries from a Households Living Condition Survey.

Source: Eurostat, National Statistical Offices, IIBW

³ Bouzarovski 2011: 1.

⁴ See UNDP 2014: 22.

⁵ Bouzarovski et al. 2012: 3.

⁶ Bouzarovski 2011: 5.

⁷ UNECE 2012; Bouzarovski et al. 2012: 4.

⁸ Cf. Bouzarovski 2011: 4.

3. Migration, Refugees, IDPs

Migration has different dimensions. Many former socialist countries suffered from massive out-migration during transition, as people were seeking income opportunities that they could not find in their home country. As the transition countries saw more economic development, emigration decreased and, in several CEE countries, reversed. A second dimension is migration from rural to urban areas as a global trend. A third dimension is migration caused by war and violence, extreme poverty, or natural or man-made disasters (called “refugees” if people migrate across borders, and “internally displaced person,” or IDP, if they remain within the borders of their home country). Such migrants are particularly vulnerable to human rights violations, and the enjoyment of housing is among the most endangered rights. Although several international instruments oblige states and other agents to ensure the right to adequate housing, these migrants are frequently the victims of discrimination in that respect.⁹

Before the escalation of the conflict in Ukraine and the civil war in Syria, up to 2.2 million people were displaced at the end of 2013 in Europe, the Caucasus and Central Asia because of conflict, human rights violations or generalised violence.¹⁰ They made up nearly 10% of the global internally displaced population. The majority had been displaced by conflicts in the 1990s during the breakup of the Soviet Union and Yugoslavia. But in 2014/15, a new major conflict broke out in the region, namely the civil war in eastern Ukraine.

Internal displacement has affected virtually all countries in the Western Balkans and in the CIS region.¹¹ The Balkan Wars of the 1990s created 3 million IDPs, and several hundred thousand remain displaced throughout the region. In Ukraine, by mid-2015 some 1.4 million IDPs and more than 700,000 refugees in neighbouring countries were registered.¹²

Adding to that, a steadily rising number of refugees in-migrate to the region from the ongoing civil wars in the southern Mediterranean and the Middle East, particularly Syria. SEE countries are especially affected by very high numbers of refugees passing through and insecurity about the ability of Western European countries to host them.

The conflict in Ukraine provides some specifics on migration from man-made disasters. Only a portion of migrants fled because of direct threats of violence. More people left the conflict zone for other reasons. As an example, the Government's decision to stop social transfer payments in the conflict zone forced many pensioners to register in neighbouring districts to continue to receive their pension, without really migrating. Other people left for other parts of Ukraine, as they saw no economic prospects in their former home, putting many of them in an economic situation similar to “normal” migrants. Those groups have insignificant need for shelter and aid. Very problematic, by contrast, is the group of IDPs who lived in vulnerable circumstances even before the conflict, e.g., single parents, people with disabilities, people with poor education, and those directly affected by violence.¹³

4. Housing costs

4.1. Housing cost inflation

Price inflation [CPI] in the EU 28 was 2.1% per annum on average from 2004 to 2014, whereas housing costs (CPI housing) increased by 3.6% and energy by 5.3% per year (despite decreasing energy costs in 2014/15). This makes a difference. In the HfH 9 countries, price inflation was generally higher compared to the EU average, but house price inflation exceeded even general inflation. For the three CEE countries, the yearly average price inflation from 2004 to 2014 was 2.4% (Slovakia, Poland) to 4.2% (Hungary), but housing costs increased

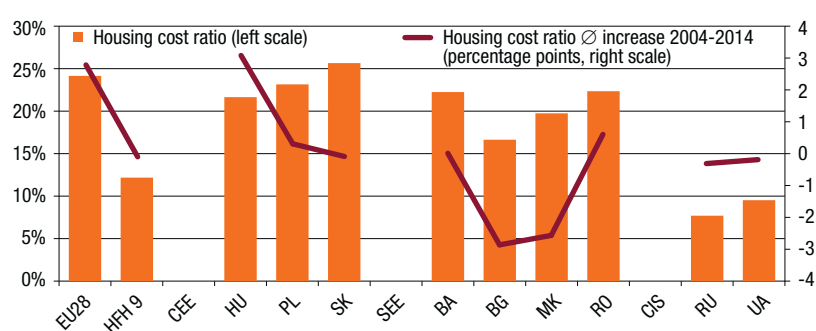
by 4% (Slovakia, Poland) to 5.4% (Hungary). Hence, housing costs increased on average over the past years by around 1.5 percentage points more than prices in general. In Romania, the divergence was even greater, with 5.4% general inflation and 8.9% housing cost inflation. Bulgaria is an exception, as house prices increased by 4.1%, slightly lower than general prices. For Russia, house price inflation exceeded general inflation until the mid-2000s. Since then, the two indicators have approached one another.

4.2. Housing cost ratio

To assess the proportion of household expenditure on housing-related expenditure, two main indicators are available. On average within the EU, 24.1% of private consumption within National Accounts is spent on housing (2013). In 2004 it was only 21.3%. Private consumption within National Accounts is a synthetic “top-down” indicator. A different concept is applied by EU-SILC, which provides data on housing expenditures based on a large household survey. This is a “bottom-up” approach from the household point of view. Under this concept, the housing costs of European households (including energy costs) amounted in 2013 to 22.2% percent of disposable household income. The two numbers seem similar, but both sources show some severe inconsistencies. As always, statistical data have to be treated and interpreted with care.

The housing cost ratio (national accounts) in the countries covered in this paper differ a lot (Figure 2). It is close to the EU average in the

Figure 2 Housing cost ratio (share of private consumption in National Accounts)



Re.: For CEE/SEE countries data from National Accounts, for CIS countries Household Living Condition Survey. Data are mostly from 2012/13, but in a few cases are earlier. Sums are weighted with housing stock..

Source: Eurostat, National Statistical Offices, IIBW

⁹ U.N. Special Rapporteur 2010: para. 9

¹⁰ IDMC 2013.

¹¹ World Bank database (2013).

¹² UNHCR, 6/2015; IDMC 2015.

¹³ Amann 2015.

three CEE countries and only slightly below in the four SEE countries. Contrary to the general trend, the ratio has decreased in Bulgaria and Macedonia over the past ten years by 3 percentage points. Depressing house price inflation was a specific focus of the Bulgarian Government in recent years. Data from EU SILC give a different picture. According to this source, households have to spend a particularly high share of disposable income on housing in Bulgaria (28%) and Hungary (24%), whereas the share is similar to the EU average in Romania (22%), but below in Slovakia (21%) and Poland (18%). Following this data source, housing costs increased since 2005 (when EU-SILC was introduced) significantly in Poland (plus 5 percentage points), whereas they decreased in Hungary, Bulgaria and Slovakia (minus 4-5 percentage points). Differences between the two data sources are explained in part by different ownership rates (consideration of imputed rents in national accounts, but not in EU SILC) and different treatment of mortgage payments.

In the CIS region, housing costs are by far lower, with less than 8 percent in Russia and below 10 percent in Ukraine (based on national Household Living Condition Surveys). In both countries the ratio remained stable over the past decade.

4.3. Housing cost overburden rate

EU-SILC also provides data on excessive housing costs. These are defined as spending more than 40% of the disposable household income on rents, mortgages, maintenance and household energy. This seems to be a good indicator of poverty housing. On average for the EU, 1 out of 10 households belongs to this category (2013). This proportion has been basically stable since 2005.

In the countries covered by this paper, the situation differs quite a lot. In Bulgaria and Slovakia, the excessive housing cost rate is below the EU average. In Romania and Hungary, the rate is close to the EU average, while it is extremely high in Poland. Since the introduction of the database, the rate has decreased slightly in Slovakia, was stable in Bulgaria and Romania, has increased in Hungary and has skyrocketed in Poland.

The low housing cost ratios in many transition countries and particularly in CIS countries have the following causes:

- Generally, poorer countries have lower housing cost ratios than more developed countries, because a much higher share of private consumption goes to meet basic needs, in particular food.
- The intention of mass housing privatization to keep housing costs for much of the population on a low and stable level succeeded.
- The ineffectiveness of housing maintenance schemes with hardly any household expenditures on housing management, maintenance and repair has contributed to lasting low housing costs. But it must be clear that this is at the cost of the residents' welfare and future investment requirements.
- The development of utility costs (household energy, maintenance services) is in many CIS countries significantly depressed by state control of tariffs, even if utility providers are in many cases privatised.¹⁴
- The old stock of owner-occupied housing, whether owner-occupied from the beginning or privatized, was basically financed without mortgages, and hence has no financing costs at present.
- The mostly high house-price-to-income ratios for new condominium dwellings seem to have minor influence on the statistics because of the still low quantity of this part of the housing stock.
- The low housing mobility in most transition countries – in several cases below 2% per year, compared with more than 10%, for example, in the USA – is a major break for housing cost development. On the other hand, the low mobility is basically caused by the unaffordability of alternative accommodation. Low housing mobility and, hence, labour mobility are assumed to be one main barrier for the economic development of those countries.

5. Housing vulnerability

5.1. Housing situation of refugees and IDPs

Wars and violence cause plenty of negative effects in terms of housing:

- A huge volume of housing and infrastructure is destroyed. Since 1991, approximately 1 million housing units all over Europe have been destroyed or badly damaged because of war.¹⁵ In the ongoing conflict in Ukraine,

thousands of houses and infrastructure buildings have been destroyed.

- War causes an exodus of people seeking safety.
- War affects construction and the institutional setting of a country. As seen in many examples, housing construction lags behind in warring countries even years after the conflicts. The same is true for housing maintenance and repair of the remaining housing stock.
- Impoverishment of big parts of the population renders even well-functioning housing markets unable to meet the need for housing.
- Violence in rural areas contributes to rapid urbanization and increases pressure on urban housing stocks, often expressed through the growth of informal settlements on the urban fringes.
- Displacement caused by violence impedes complicated property rights questions regarding housing.

The perspective of EU accession has motivated some European countries to develop sustainable solutions for IDPs in order to comply with EU human rights standards. In 2012, the Western Balkan countries Bosnia and Herzegovina, Croatia, Montenegro and Serbia, in cooperation with OSCE, UNHCR and the EU Commission, initiated a Regional Housing Programme to provide housing solutions for 74,000 individuals, with estimated investment costs of almost €600 million within a five-year period.

For the situation in Ukraine, a more detailed picture can be drawn. The United Nations High Commissioner for Refugees [UNHCR] has conducted a survey on the housing situation of IDPs (6/2015; n=3,000), with the following main results¹⁶:

Around 60% of IDPs live in rented apartments or houses, four out of five without a formal contract.

Costs for rented apartments are mostly quite moderate, with 70% of IDPs paying rents of below €80 per month. This is far below the market rent in bigger cities. It can be explained that many IDPs have rented summer houses or apartments in rural areas or accept shared apartments. There are also cities in northern Ukraine with very low market prices. In some

¹⁴ UNECE 2013, 22, 23.

¹⁶ Amann 2015.

¹⁵ HFI 2005: 37.

cities in northern Donetsk Oblast, rental apartments are available for the costs of utilities. The substantial increase of rental demand due to the IDP inflow has increased the market level of (informal) rental housing in most Ukrainian cities.

Around 20% of IDPs are hosted by friends or family members.

Only 10% are accommodated in collective centres. Those facilities are particularly affected by overcrowding (40%). Collective centres are mainly temporary shelters for IDPs, who will usually find other housing solutions after some time. Only some of the most vulnerable people depend on collective centres on a permanent basis. Many of them have been vulnerable and dependent on such institutions even before migration.

The remaining IDPs are accommodated in other ways, such as in purchased apartments or hotels.

The vast majority of IDPs (80%) used to live in owner-occupied apartments before migration. Unfortunately, the housing markets in the conflict zone have basically collapsed. It is still possible to sell apartments, but at prices that are a fraction of what they were before the conflict. Hence, being the owner of an apartment in the city of origin doesn't help very much in purchasing an apartment in the new hometown.

It may seem reasonable to allocate such IDPs in rural areas, where costs of living are lower. But because of the lack of employment opportunities and medical infrastructure, along with limited mobility, most IDPs are reluctant to pursue such options. Experience from other countries shows that low-income and vulnerable households are particularly dependent on housing solutions in an urban environment.

5.2. Roma housing

"Roma" refers to a heterogeneous, stratified, geographically and linguistically diversified ethnic minority in many countries. The biggest shares of Roma population within the scope of the HfH 9 countries live in Romania (7 to 9%), Bulgaria and Slovakia. But the demographic and housing situation of the Roma population is also a challenge in Bosnia-Herzegovina, Hungary and Macedonia. Those and other European countries committed to the "Decade of Roma Inclusion 2005-2015" with housing as one of its priority areas (romadecade.org). Within this

initiative, housing-related projects were realized in most mentioned countries.¹⁷

The World Bank has called the Roma situation "the biggest challenge to poverty alleviation in Central and Eastern Europe." The poverty of the Roma is closely related to housing, as Roma people often live in informal or illegal settlements on the outskirts of population centres. Housing quality in these settlements is usually substandard; services are few; and access to electricity, gas, water, sanitation and sewerage is limited. The Roma face a series of specific obstacles, including lack of information, restrictions and discriminatory criteria, which impede their access to social housing. The issue is widely unsolved in the region.

5.3. Housing for elderly people

All countries worldwide are facing a rapidly aging society. In 2014, the worldwide proportion of people older than 60 was 15%. It will be 21% by 2030 and almost double that by 2050. Many Western countries already have proportions of close to 30%. Some of the countries documented in this paper also have a particularly aged population, particularly Bulgaria and Hungary. In contrast with Western countries, this is not primarily because of growing life expectancy, but because of strong emigration amongst the younger population strata in past years.

In some ECA countries, such as Russia, life expectancy has dramatically decreased during transition. The change of mainstream ideology has strongly affected those socialised in the communist era. People who were in their 40s or older when socialist regimes collapsed had severe difficulties in integrating into the new labour market conditions. A huge portion of the population was excluded from the official workforce and have ceased their attempts to return. Transition of labour markets and welfare regimes were particularly discriminatory for those who are elderly today. They face low, insecure and often informal incomes and pensions with a much lower purchasing power compared with those before transition. Whereas the 50 and older generation in many Western countries is one of the wealthiest strata in society, the opposite is true in all transition countries. This generation is definitely the loser from transition.

Hardship for this group was relieved by several pragmatic measures. The most important was housing privatization, which particularly

benefited this group. Even so, being poor, most of them have severe difficulties in maintaining their property. Inflation in the cost of utility services, particularly energy, is also a heavy burden for many elderly people.

In many countries, elderly people still have access to low-cost medical care and other privileges, such as reduced tariffs for utilities or public transport free of charge. Family bonds and support from the younger generation have become increasingly important. Many elder families have retired to old cottages far from the cities and make their living as self-sufficient farmers with a very low standard of accommodation. Elderly people living alone are particularly likely to experience poverty.

Whereas the elder population stratum is an important clientele in real estate markets in Western countries, this is different in most transition countries. There is hardly any supply of homes for the elderly. New construction of homes for the elderly is at a very low level. Hence, "aging in place" seems to be the prevalent strategy to serve the elderly. This requires retrofitting existing structural features and providing community support systems.¹⁸ Social services targeting elderly people, such as "meals on wheels" or mobile medical care, are also poorly developed.

6. Housing stock, housing provision

6.1. Floor space per capita

Housing provision in the HfH 9 region varies considerably. Housing conditions are more favourable in those countries that joined the European Union in 2004 (Hungary, Poland and Slovakia) while Romania, Bulgaria and non-EU countries face significantly worse situations.

The contrast between the EU aggregate average and "New Europe" is even more striking in consideration of useful floor space per capita, being 38 square meters for the EU 28, but only about 25 square meters in the average of the HfH 9 countries (Figure 3), ranging from only 15 square meters (Macedonia) to 33 (Bulgaria, Hungary).¹⁹

6.2. Housing privatization

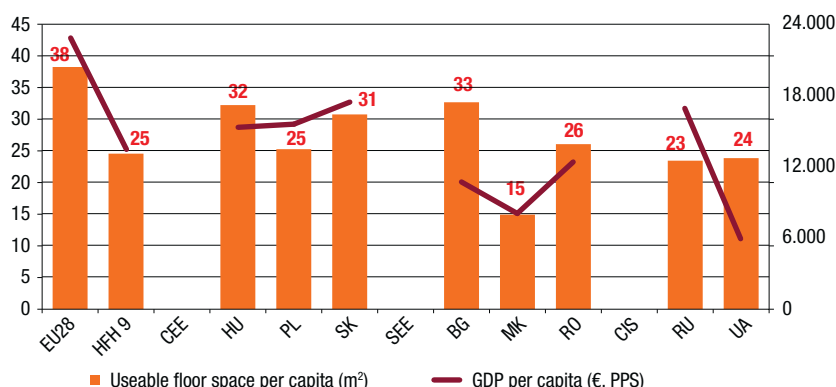
In shifting from a command to a market economy, many countries across the region have conducted a radical privatization of the housing

¹⁷ Berescu et al. 2012; ERRC 2010; Molnár, et al. 2012.

¹⁸ Hamilton 2013.

¹⁹ Hamilton 2013.

Figure 3 Average usable floor space (m²), average GDP per capita



Re.: Data are mostly from 2013/14 but in a few cases are earlier.

Statistical data on usable floor space are rather inconsistent because of different measurement methods. Therefore, an attempt was made to convert all data to the measurement method used in Western Europe, including all space within an apartment into the usable floor space (not only living rooms). Sums are weighted by population.

Source: National Statistical Offices, Eurostat, Euroconstruct, EECFA, IIBW

stock since 1990. By contrast to housing privatization in many Western European countries, only one model was applied: selling off social rental apartments at very low prices to sitting tenants. Other models, such as right-to-buy policies to sitting tenants (as in the United Kingdom), property transfers from public to not-for-profit actors (as in the Netherlands and the United Kingdom), and sale of public housing stock to commercial investment companies (as in Germany), were not considered. The impact of housing privatization on the population has varied from country to country.²⁰

The starting place for privatizing the housing stock was different for every country. In some countries, a private housing market had existed legally or clandestinely for many years before 1990. Although state ownership was extreme in some countries such as Russia, other countries, such as Bulgaria, Hungary and Slovenia, experienced levels of homeownership above those of Western Europe. In Czechoslovakia and Poland, cooperative housing was very important before 1990, and it continues to be important today.²¹ In most CEE countries, the public rental sector has decreased from previous levels of 20% to 50% or more of the housing stock to current levels of well below 10%. Hence, at least 40 million apartments in the HfH 9 region were transferred from the public sector to the private sector.²²

Sale prices of privatization almost never came close to "replacement value," a price that allows

the public to build a new housing unit and hence keep the total social housing stock stable. Since privatization was never intended to be used for financing new social housing construction, this argument was hardly ever applied. By contrast, in many cases there was a consensus that sitting tenants had a legitimate claim for property rights on their apartment. Housing was in former times financed by contributions from the workers (in CIS countries to the state, in the former Yugoslavia as a fixed royalty from salaries to "Solidarity Funds"). As the former system of social transfers ceased to function, privatization to sitting tenants seemed to be the fairest solution to the biggest number of beneficiaries. In most cases, sale prices were below 20% of replacement value, but in many countries the sales were at nil value or only nominal. Giveaway privatisation took place in Slovakia, Macedonia and most CIS countries.

Mass housing privatization is often assessed critically or negatively.²³ The following main negative aspects are detected:

- Rash implementation negated old systems before the new mechanisms were established, particularly condominium legislation and regulations on housing maintenance and management.²⁴
- Privatization diminished affordable rental housing. What was good for the sitting tenants up to that time became a big disadvantage for following generations. If today

young households, migrants to the cities, and the poor are confronted with a very difficult housing situation, it is the result of that transitional policy.

- Privatization generated plenty of "poor owners," who are hardly in a position to take over the responsibility linked to their property. Not only can poor owners hardly benefit from the asset of owning an apartment (e.g., as security for business activities), but also they are mainly responsible for the poor effectiveness of condominium management. Being barely able to contribute financially to maintenance and repair of common parts of the buildings, they aggravate decision-making processes within owners' associations and cause improvement measures to fail. Orderly housing maintenance works only with a low share of freeloaders. If there are too many in one building, both decision-making and funding will fail.

- Finally, mass privatization and the rapid increase of ownership rates contributed to the very low housing and labour mobility in all transition countries, which led to negative effects on overall economic development.

With these issues unresolved, deteriorating privatized housing will in the medium term become a heavy public liability. If private owners resist taking over responsibility for repairs, this responsibility will fall back on the public. Leaving unwilling owners in collapsing structures is no political option. The public wanted to get rid of the responsibility for housing provision of the poor. This proved to be an illusion. Housing for those in need will always be a public service obligation.

It seems reasonable to also value some positive aspects of privatization. In many individual cases, the underlying core idea of privatization to give households an asset succeeded. Ownership of the inhabited apartment was, in many cases, a starting point for economic well-being. Housing privatization was probably the best visible symbol of the system change to a market economy. It was, therefore, politically highly rational. With the applied inadequate model of housing privatization, implementation was possible in the short term. Any complex model, anticipating problems as seen today, would have been much more difficult to implement with a lot of political risks. Housing privatization was quite popular. People enjoyed the opportunity to become the legal owners of

²⁰ UN Special Rapporteur 2009: para. 37, 39. Hegedüs et al. 2012: 41.

²¹ Struyk 2000: 3.

²² IIBW estimate.

²³ e.g., UNECE 2003, Balchin 1997: 243; HfH 2005: 29; Dübel et al. 2006; Tsenkova 2009; Amann 2009; Amann, Hegedüs, Lux & Springer 2012.

²⁴ UNDP 1997: 67.

their apartments, as it promised tenure security and a degree of economic security. Rapid implementation is therefore understandable.

Ownership made it easier for many poor households to survive the ensuing economic hardship. Even today, low-cost housing in owner-occupied apartments is a core element of something that could be called a “social contract” in countries such as Ukraine or Russia. Those who lost from transition by being dropped from the labour market or losing promised claims for future benefits by massive inflation and change of insurance schemes were thus provided with the basics for a decent living. Very low housing costs in combination with multiple privileges (free public transport and medical services) allow even elderly people with very low pensions not only to survive, but to live a life in some dignity.

6.3. Tenure structure

Mass privatization and a lack of new rental housing construction led to a sharp decrease of rental housing in all transition countries in the 1990s. Today, a majority of transition countries may be classified as Super Homeownership States²⁵ with ownership rates above 90%. Whereas in the EU 28, the average homeownership rate is 70%, it is 89% in the average of the HfH 9 countries documented in this paper. Generally speaking, there seems to be a correlation between the state of economic development of countries and lower ownership rates, with, e.g., Switzerland or Germany having ownership rates of below 50%.

Formal rental housing has a decreasing significance in all transition countries, despite all the emphasis on re-establishing affordable rental housing. Only Russia, Poland and Bulgaria have social rental housing sectors above the EU 28 average (i.e., more than 11% of the total housing stock). Market rental sectors differ even more from EU standards. Whereas 19% of the total housing stock in the EU is rented out on market conditions, that figure is less than 2% in most SEE and CIS countries and only slightly higher in the CEE region.

However, these statistics hide important differences in rental tenures. For example, cooperative housing has to be classified somewhere between rental and owner-occupied housing. In some countries, tenants of cooperative housing have tenancy rights close to

ownership, but in other countries such dwellings are clearly rentals. In some countries, such as Poland, both types exist side by side.

On the other hand, an informal rental market has emerged in all transition countries. Privatized owner-occupied apartments are rented out, mainly serving demand at the lower end of the market. This tenure is mostly unregulated, with hardly any tenant protection or fiscal treatment. Despite its considerable size, this tenure sector is statistically elusive, with no real data available. It can be estimated that 20 to 30% of tenants in metropolitan areas live in rented apartments, depending on the economic strength of the cities and, linked to this, real estate prices. It becomes evident that the development of regular private rental markets is to become one of the main challenges of housing policy in the region.

6.4. Affordable rental housing

Before transition, the significance and institutional setting of social rental housing was quite diverse. The public rental sector occupied more than 50% of the housing stock in the Soviet Union, about 28% in CEE countries, and only 19% in SEE countries such as Albania, Croatia and Bulgaria. It was primarily state-owned in CIS countries, but enterprise-owned in the former Yugoslavia. There, social ownership titles could be inherited and swapped for private ownership. Consequently, a social rental sector as such did not exist in the former Yugoslavia. The homeownership sector in Bulgaria or the cooperatives in Czechoslovakia functioned quite similarly.²⁶

But in the socialist housing system, the definition of social housing was quite uncertain, as the state housing policy followed a “unitary” structure, to use the term coined by J. Kemeny,²⁷ which meant that state-subsidized housing (both in the public and in the owner-occupied sector) was open for a wide range of different incomes and professional groups.²⁸

Currently, the share of social rental housing is 11% in the EU (2014). In the HfH 9 region, the percentage of social rental housing is varied, comprising less than 5% of the housing stock in Slovakia, Romania and Ukraine, but above the EU average in Russia, Poland and Bulgaria. The costs of social rental housing in the region are extremely low and often not even cover

maintenance costs. This locks any new investments in social housing.

There is a clear link between rising house prices – and the resulting affordability problems – and the demand for public and affordable housing. The constant decrease of public housing has resulted in long waiting lists, keeping a large number of people in inadequate housing conditions or affecting their expenditure in other areas, such as food, clothing and health.²⁹ Having a sufficient supply of affordable housing affects different areas of development. It is important not only to provide shelter, but also for the formation of a cohesive, inclusive society and for a country's economic development.

7. Housing construction, markets, housing finance

7.1. Housing construction

For most transition countries, the first decade after transition could be characterized as a deep housing crisis. Housing completions dropped in some countries (for example, Russia) by more than 40%, in most CEE countries by 70 to 80%, and in less-developed SEE and CIS countries by up to 90%. Since the early 2000s, housing construction has developed impressively in most CEE countries (except Hungary). In terms of completed dwellings per 1,000 inhabitants, some CEE (Poland, Slovakia) and CIS countries (Russia) have meanwhile exceeded the European average, but others are still far below (Figure 4).

For several countries (SEE region and some CIS countries), official data on housing construction are inadequate. In some of those countries, informal construction still has not been stopped³⁰. “Completion” of a dwelling means something different than it does in Western countries. To leave a building shell unfinished until new liquidity comes along seems quite normal.³¹

The Global Financial Crisis has hit the construction industry in several Western countries hard, with decreases of up to 90% in Ireland and Spain. Overall, in the Euroconstruct countries (i.e. 17 EU countries + Switzerland + Norway), the rate was cut in half, from 5.6 completed dwellings per 1,000 inhabitants in 2007 to only 2.8 in 2013, with stagnation

²⁵ Stephens, 2005.

²⁶ Amann & Lawson 2012; Council of Europe 2002: 12-13; Charles Kendall / Eurasyllum 2009: 7.

²⁷ Kemeny et al. 2005.

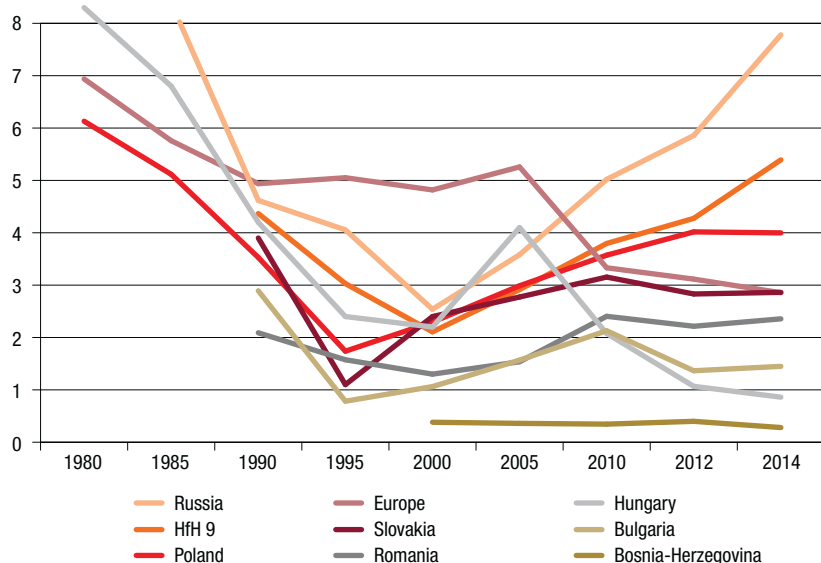
²⁸ Amann, Hegedüs, Lux & Springler 2012.

²⁹ UN Special Rapporteur 2009: para. 34.

³⁰ Tsenkova, 2009.

³¹ Gevorgyan & Hircche 2006: 20..

Figure 4 Housing completions per 1,000 inhabitants in the HFH 9 countries



Re.: Europe = "Euroconstruct" countries = 17 EU countries + Switzerland + Norway

Sources: National Statistical Offices, Euroconstruct, EECFA, IIBW

at this low level (but with housing refurbishment growing in significance). Even though most ECA countries were also heavily affected by the crisis, the construction output in the residential sector performed quite differently:

- Some countries, such as Hungary and Bulgaria, had developed quite well before the crisis but have since suffered from steep decreases in production, with current signs of recovery in both countries.
- In the majority of countries, where housing construction had developed to a moderate level before the crisis, the output fell in the years after, but has recovered again at a basically stable level. This group includes higher-performing countries such as Poland and Slovakia, along with countries with moderate housing output, such as Romania and Ukraine (until 2013).
- Some economies focus on housing construction as a key measure for economic recovery and hence have increased housing output strongly. Among the HFH 9 countries, this is particularly true of Russia, with a construction rate (completed dwellings per 1,000 inhabitants) that has tripled since the early 2000s and exceeds the European average by 170% in 2014 (Figure 4).

7.2. Social housing construction

Housing policy in the region has focussed quite clearly on construction of owner-occupied market housing. Nevertheless, social housing construction has begun to recover in several countries. Even though social housing in most countries does not have the significance it has in some Western European countries, it seems to be reviving.

In Slovakia, the share of social housing in new construction is as high as 15%, but in other CEE countries it is much lower, with 4% in Poland and even less in Hungary (2011). In many CIS countries, public housing is stable at a high level of some 10% of total new construction, e.g., in Russia (2013).

But data on social housing construction are quite inconsistent. There is no clear definition of social housing, neither regarding the target groups (only vulnerable households or including moderate-income groups) nor tenure. In many cases, public authorities targeting social issues are reluctant to produce social rental housing but prefer to provide low-cost owner-occupied housing.

There are various models in place for low-cost owner-occupied housing. The Council of Europe Development Bank (CEB, Paris) specialises in such programmes, e.g., in the Western Balkans. Many countries and municipalities have introduced financing schemes for specific target groups, such as young families or key workers.

For many CIS countries, a paradox applies: Today, public housing is still privatized at below-market prices, while substantial public funds are invested in new public housing construction. Nevertheless, the existing programs for new public housing construction are in all cases too small to substantially increase the share of affordable rental housing over time.³²

In many countries in the region, commercial housing developers increasingly target low-income households. They minimize construction costs not only by standardized planning and cheap construction products, but also increasingly by offering limited and very limited floor space. In some places, this market segment is called "social housing."

Social housing construction in the HFH 9 region relies mostly on municipal housing and housing organised by state housing agencies or funds. Such financing institutions play an important role in the social housing construction of many transition countries.

8. Housing markets

8.1. Owner-occupied apartments

Between the early 2000s and the Global Financial Crisis in 2008, the favourable macro-economic conditions fuelled demand for housing in all countries of the region. With effective mortgage legislation, moderate interest rates and the willingness of banks to accept high loan-to-value ratios, many people could afford to own property. Growing demand not only stimulated production capacities, but also inflated the price of housing.³³

Market prices in metropolitan regions of all HFH 9 countries skyrocketed, in most cases reaching a peak in early 2008. Prices for new condominium dwellings rose in cities like Bratislava, Kiev, Warsaw or Moscow to levels above Western European capital cities, despite much lower incomes of domestic customers and often lower standards of fixtures

³² Amann & Mundt 2011: 95.

³³ Roy, 2008: 152; Amann 2009: 25.

and fittings. In some capital cities, the prices of used apartments even exceeded those of newly built ones, mainly because of the better location and appreciated construction quality of old buildings.

After the hype, prices dropped in most markets (e.g., in Warsaw and Budapest) by one-quarter, but by around 40% in Sofia and by more than half in Kiev. Moscow experienced a temporary, slight decrease of prices.³⁴ Meanwhile, housing markets have stabilized, but in most countries of the region they remain below the pre-2008 level. Only in a few countries do prices exceed the pre-crisis level.

8.2. Rental housing markets

Rental markets are not transparent in the transition countries. Hardly any reliable statistics are available, particularly for the large informal rental sector. But rent levels obviously follow market conditions. Upscale market apartments with rents on the level of Western European capital cities are available in many prosperous cities in the region. But only in major cities of some CEE countries and Russia are the mainstream markets at this rent level. In most urban areas, there is a substantial supply of much cheaper informal rental apartments, often in privatized private dwellings. For many less-developed cities, the mainstream rental market is on a level of €1.50 per square meter per month or below.³⁵ This makes it very difficult to implement formal rental housing schemes with sustainable refinancing schemes.

9. Housing finance

9.1. Development of mortgage financing

In most countries of the region, retail financing products first appeared in the early 2000s. They were responsible for a boom in new construction of housing in all metropolitan areas of the region. In the years before the Global Financial Crisis, financing conditions became more and more favourable in most countries, not only in terms of decreasing interest rates, but also in respect of ever-growing loan-to-value ratios, which in some cases exceeded 100% of the market value of the premises.

Housing affordability improved despite the fact that house prices increased more quickly than household income. Decreasing interest rates after 2000 made mortgages affordable for the

upper 40 percent of households, thus relaxing the pressure on social housing. Then again, it was the availability of attractive financing products that mainly heated up house price inflation.³⁶

The banking industry competed intensively for market share, particularly in the new markets, knowing that the market leader would have a privileged position in long-term business performance. As such, plenty of insufficiently secured loans were accepted, sometimes with excessive loan-to-value-ratios. With the economic downturn, this practice resulted in big volumes of bad debts and a fundamental change of business conduct.

The crisis produced a gridlock in housing finance in the entire region. For some time, almost all projects were stopped because of insecure financing. Since then, housing finance has recovered, but conditions for mortgage financing have changed fundamentally. Banks require more owner equity and higher down payments than before. They also require more securities, such as pledges, and charge higher interest rates. A less enthusiastic economic outlook combined with more restrictive lending conditions led to a cooling off of mortgage

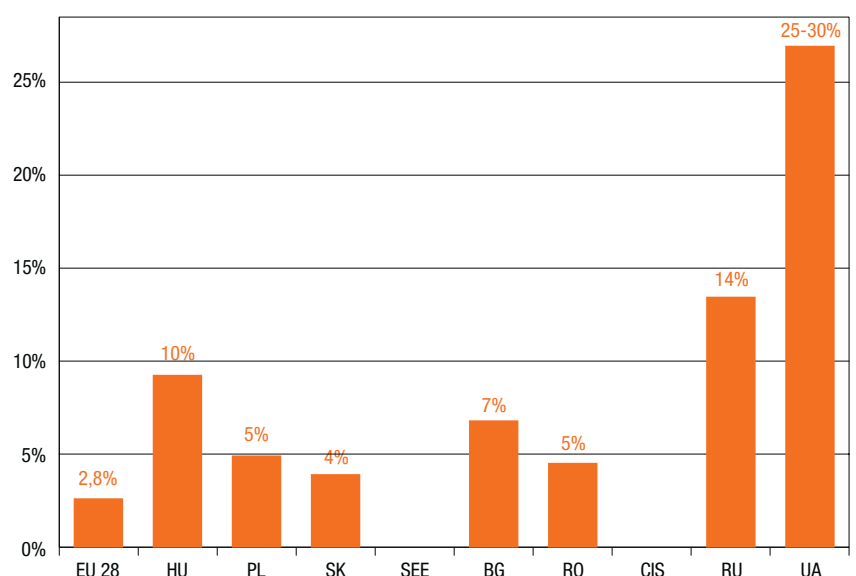
financing, with some countries even decreasing ratios of outstanding mortgage loans to GDP.

As documented in Figure 5, the situation has since revived. Representative interest rates are again on an attractive level in many countries covered in this paper. In most CEE countries, housing financing was cheaper in 2015 than in 2007 (Hypostat). Interest rates in the CIS region are in contrast to this situation. In Ukraine, most private banks have stopped mortgage financing because of extremely high interest rates. With interest rates on such a level, it is impossible to finance anything but owner-occupied housing at short-term maturities.

9.2. Foreign currency financing

Foreign currency (mostly Euro and Swiss franc denominated) loans were popular throughout the region, particularly in Hungary, Poland, Romania and Ukraine.³⁷ In many cases, they caused serious hardship for borrowers in the wake of the Global Financial Crisis, leading to devaluation of local currencies, a downturn in property values, and insecurity of employment. In some cases, such as in Hungary, national governments forced banks to convert foreign currency loans at fixed rates into local currency, which caused substantial losses to the finance

Figure 5 Representative mortgage rates



Re.: Interest rate of a representative mortgage loan in local currency. Most recent years, mostly 2014/15.

Source: Hypostat/EMF, EECFA, IIBW.

³⁴ Different sources, IIBW/HfH 2013.

³⁵ IIBW 2010.

³⁶ Hegedüs et al. 2012: 22; Amann 2009: 26.

³⁷ Hegedüs et al. 2012: 22; Amann 2009: 24.

industry and shook the public's confidence in political reliability. Today, foreign currency loans are prohibited in most countries of the region.

9.3. Social housing finance

In Soviet times, state housing investments were financed through budgetary resources and through the state banking system, which operated under the control of central planning. The banks issued loans at the price and in magnitude set by the central planning agencies. In former Yugoslavia, social housing finance was organised with a fixed royalty of about 0.5% from salaries to "Solidarity Funds," which were usually organised by the same companies where people worked. After 1990, socialist housing finance systems collapsed. Solidarity Funds closed down with mass housing privatization. The fiscal pressure on the state budgets forced the governments in CIS countries to cut housing subsidies drastically. In most transition countries, public housing investments were practically stopped. In parallel, subsidies to bank-financed schemes (such as cooperative or subsidized owner-occupied housing) had been cut severely or withdrawn totally.³⁸

After the turn of the century, several HfH 9 countries continued to develop social housing. Some countries, mostly in the CIS region, continued to finance such construction from state or municipal budgets. In a few countries, such as Russia, this developed into very significant amounts. In other countries, public-private-partnership [PPP] approaches were tapped, e.g., the Low Cost Social Housing [TBS] programme in Poland, combining financing through a state bank with loans from international financing institutions and contributions of future tenants. The establishment of housing funds or housing agencies proved to be the most durable approach in a number of countries in the region. Many countries introduced subsidy tools to promote mortgage financing of housing purchases for middle-income groups.

10. Conclusions

This paper focuses on "New Europe", representing countries from Central Eastern Europe, South eastern Europe and the CIS region, which are rarely enough in the spotlight of comparative housing research. We come to the following conclusions.

Housing affordability has a different characteristic in the CEE/SEE/CIS region, compared to Western Europe. Household incomes are significantly below the EU average. But the same applies to housing costs. Housing cost ratios are similar to Western Europe in CEE countries, slightly below in the SEE region, and far below in CIS countries. In most cases they keep stable, in few countries they have even decreased. How could those countries succeed in this?

Housing affordability in "New Europe" is achieved both by policy action and by idleness. In many of those countries household energy costs are kept low, both by tariff systems and by subsidies to utility providers. Maintenance costs are kept low by reluctant implementation of sustainable maintenance and refurbishment schemes. Past mass privatization allows a big part of the population, particularly the elder generation, to live at very low costs.

But all of those measures have a serious downside. Cheap energy is a major barrier to energy efficiency and lower emissions from the building sector. Insufficient maintenance schemes threaten sustainability and the intrinsic value of the housing stock. Mass privatisation has created a large number of poor owners, who cannot really take over responsibility for their property. It has resulted in housing stocks with insufficient management and maintenance schemes with quite a gloomy outlook for long term technical stability. Such settlements are much more obstructive to urban regeneration than rental housing estates. The resulting low household mobility is a barrier to economic development.

Political decisions to leave things as they are or to take action are driven by political rationality (or opportunism) in an environment with usually quite a short political lifespan. But in many cases it is also honest anxiety about the needs and problems of those big parts of population which didn't benefit from transition. Affordable housing is an indispensable shock absorber for those who have close to nothing. Low housing costs are an important part of keeping purchasing power in balance.

It seems that today New Europe performs quite well in terms of housing affordability. But huge challenges are imminent, both in respect of sustainability of the existing housing stock, a climate neutral building sector, the vibrant and seminal development of cities, a better balance

of tenancy choice and finally tackling economic opportunities from developing housing sectors.

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³⁸ Amann, Hegedüs, Lux & Springler 2012.

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