

ECONOMIC COMMISSION FOR EUROPE  
Geneva

COUNTRY PROFILES  
ON  
THE HOUSING SECTOR  
**BULGARIA**



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**UNITED NATIONS**  
**New York and Geneva, 1996**

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ECE/HBP/101

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Printed at United Nations, Geneva (Switzerland)

UNITED NATIONS PUBLICATION

*Sales No.* E.96.II.E.28

ISBN 92-1-116659-4

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## PREFACE

This study on the Bulgarian housing sector is the first project of a new programme element of the ECE Committee on Human Settlements, which foresees a series of country studies focusing on housing sector reforms in economies in transition.

Housing sector reform in central and eastern Europe is proving to be a difficult process. The joint ECE/HABITAT Workshop on financial and economic aspects of housing reform in countries in transition, which took place in November 1993 in Sofia (Bulgaria), evaluated the experience regarding the implementation of housing sector reforms in countries in transition. It was observed that major difficulties brought about by the transition, such as high inflation, the lack of competition and the absence of appropriate new legislative and institutional structures, remained unsolved. The Workshop concluded that for the majority of the population in these countries housing conditions would continue to deteriorate unless these major difficulties were addressed.

The Workshop proposed the preparation of country profiles on housing sector reform as a new activity of the ECE Committee on Human Settlements. This proposal stressed the need for a "process oriented" reformulation of housing policies in countries in transition, based on reliable information regarding the housing sector, the institutional framework, related legislative structures and policies and practical implementation issues. A series of in-depth country studies based on the analysis by an international team of experts in close cooperation with relevant institutions and participants in the country under review was seen as a promising methodological approach.

Such a country-based strategic analysis of housing reform and the assessment of various options for policy formulation and implementation should focus on how, in the given national situation, the housing sector can best be adapted to, and integrated into a vigorous transition process. It was hoped that such country analyses would accelerate the transition of countries of central and eastern Europe towards a market economy and help to achieve continued progress towards a sustainable development of the housing sector through broad political support.

It was proposed that the approach to the country profiles should:

(a) Rely on an experienced international team of experts in order to put forward solutions based as far as possible on the specific social, economic and cultural resources available in the country being analysed;

(b) Mobilize all available information sources in the country through broad cooperation with all relevant governmental bodies;

(c) Recommend strategic objectives to guide the housing reform towards sustainable patterns of housing development in terms of human environmental and financial resources;

(d) Link bilateral assistance activities to those of the ECE Committee on Human Settlements to increase political relevance and make assistance programmes more efficient.

At its second session in May 1994, the Working Party on Housing Development, Modernization and Management considered the proposal for the preparation of Country Profiles on the Housing Sector. It also welcomed the proposal of the Government of Bulgaria to carry out a pilot project. It was agreed that this activity should be linked to the Housing Indicators Programme of the United Nations Centre for Human Settlements (UNCHS) and the World Bank in order to make full use of all quantitative analytical material available.

Being a first attempt of this kind, a model approach had to be designed establishing a framework for comparable follow-up activities. Only through the joint efforts of many individuals and organizations did this publication come into being.

In Bulgaria the pilot project was guided by Mr. M. Videlov, Vice-Minister at the Ministry for Regional Development and Construction, which set up a national team of experts. The Ministries of Finance, Legislation, Labour and Social Welfare, and the Environment provided additional input. Public agencies such as the National Statistics Institute, the National Commission on Prices, the Trade Union Institute, the Agency for Economic Forecasting and Research, the Bulgarian Construction Chamber and the Board of the National Compensation Fund also participated, as did the banking sector and private sector organizations.

The international expert team which carried out the study consisted of: Mr. Siegfried Brenke (Chairman, Working Party on Housing Development, Modernization and Management), Mr. Jaroslav Kohout (Czech Republic), Ms. Iris Behr and Mr. Uwe Wullkopf (Germany), Mr. Jozsef Csomos, Mr. Jozsef Hegedüs and Mr. Ivan Tosics (Hungary), Mr. Alle Elbers (Netherlands), Mr. Gert A. Gundersen (Norway) and Mr. Anders Victorin (Sweden).

The Governments of Germany, the Netherlands and Norway helped to finance the study.

## INTRODUCTION

In many ECE countries housing sector reform is a permanent issue for internal policy debate. Prominent examples of recent government initiatives for assessing ends and means of housing policy in a market economic framework confirm continued public interest in this topic. National Governments are concerned about the performance of this sector, its contribution to economic development, its role in social policy, its impact on public budgets, the environmental consequences of settlement patterns and the quality of the dwelling stock.

National housing markets have different cultural traditions, preferred construction technologies, stringency of regulations, rates of owner occupancy, levels of subsidies and degrees of decentralization of political responsibilities. Furthermore, housing policy is always closely related to and depends on other policy sectors such as the general legislative framework and the tax system. Thus, comparing housing sector performance across borders and deriving policy advice from this are major challenges.

In the ECE region, countries in transition are undergoing an unprecedented change in their legal, economic and social fabric, which also affects the housing sector. Consequently, when designing a completely new framework for housing policy at the national and local level, their Governments are looking for "models" in market economies which may be applicable or adjustable to their specific needs. In most cases, bilateral cooperation deals only marginally with housing policy and, where it does, approaches and proposed solutions tend to be biased to the national experience.

Improving the performance of the housing sector is, for several reasons, an important factor in the success or failure of the ongoing transition process in central and eastern Europe:

(a) **For economic reasons**, as 7-18 per cent of gross national product (GNP), according to the World Bank Shelter Sector Study, is related to investment and services in the housing sector. Management and performance of the housing sector thus have a major influence on overall national economic performance;

(b) **For social reasons**, as housing is a basic human need requiring a certain degree of government involvement;

(c) **For environmental reasons**, as the integration of the economy and the environment must include the housing sector and related State and local decision-making in order to reduce the consumption of resources, especially energy, water and land; and

(d) **For political reasons**, as success or failure in housing policy is directly felt by the majority of the

population, who tends to blame the new economic and political system for shortages, lack of services, the breakdown of housing production and other difficulties occurring in the transition process.

In order to make maximum use of the information provided, the Country Profile project should become a tool for:

(a) Governmental and other relevant agencies and institutions of the country analysed to assess and direct their housing policies by facilitating the decision-making process, to eliminate bottlenecks in the housing sector, and to establish long-term strategies;

(b) All countries in transition to compare the progress made and the specific solutions tested in individual countries;

(c) Potential investors by providing information on, for instance, the legal, economic and institutional conditions of the housing sector in a given country in transition;

(d) Setting public-sector priorities for immediate action; and

(e) Harmonizing individual projects with long-term strategies in the housing sector.

It is of primary importance that the Country Profiles are produced in a manner which ensures maximum practical usefulness of the results for all interested parties. Therefore, the work is aimed at clearly defining positive and problematic elements with regard to both overall policy and its implementation, including probable social and economic consequences for the major participants in the housing sector.

Housing policy is an integral part of market economies and there is a definite need also for the countries in transition to provide decent housing and social protection to needy households. Besides this social policy objective, the housing sector can be used as a major vehicle for economic growth and development, a major factor in job creation and a source of additional income for the national budget. To this end, there is a need for adequate governmental action on the basis of a coherent and comprehensive housing reform concept. For such a housing concept to be put into practice, the main features of transition and the different functions performed by the housing sector must be understood. The key issues should be identified and, on this basis, goals and priorities can be set. To achieve such goals, different strategies can be implemented.

Those in charge of elaborating and implementing housing concepts can learn from the experience of other countries in transition. While until now much advice has

come from western countries, little exchange of information and experience has taken place among countries in transition in order to learn how others are tackling almost identical problems. Combining successful models from developed market countries with experience from other countries in transition and adapting this sum of international experience to national characteristics, should yield maximum benefits.

A good methodology is needed to identify the transition problems and to compare the problems of different countries. The right questions should be asked and the proper indicators should be used. To describe and analyse the performance of the housing sector, qualitative

and quantitative indicators can be used. To acquire better insight into processes, time series of data should be provided if possible. In certain cases it would be necessary to break down the data according to income groups or regional factors.

To prepare and evaluate good policy suggestions for improving the transformation of the housing sector from a subsystem of the planned economy into an important component of a market-based economy, and for a proper understanding of the transition process and the function of the housing sector in it, the programme element "Country profiles on the housing sector" should be a valuable instrument.



## CONCLUSIONS AND RECOMMENDATIONS

### 1. Political priority for housing

This Country Profile on housing in Bulgaria illustrates the complex problems facing the housing sector in the countries in transition. It also sheds light on this sector's considerable unused potential to accelerate and improve the transition process.

Moving from a centrally-planned economy, where housing was an underpriced, centrally provided commodity, to a market system, where scarcity of resources is reflected through price signals, has resulted in special problems. New structures and processes need to be put in place in order to organize and control the process of decentralized decision-making.

Housing has lost much of its political priority during Bulgaria's transition. Although this political downgrading is understandable in the light of new competing priorities and the complexity of the problems and solutions in this sector, the consequences are serious.

The opportunity to use the housing sector as a tool to accelerate economic and social development is lost

without due political regard to the importance and possibilities of housing as an integral part of transition policy.

The expert team holds the view that a carefully structured national housing strategy would release available, unused resources in the Bulgarian economy. The use of these resources would not significantly increase inflationary pressures. On the contrary, they would in the team's view contribute to accelerated economic growth by:

- Increasing economic activity in the building and construction sectors;
- Increasing the employment opportunities in the construction, craft and service sectors;
- Reducing the consumption of resources, particularly energy;
- Removing housing as a bottleneck for expansion, particularly in the urban areas.

It is the team's view that the relevant political priority given to housing through a national housing strategy would be a major step towards satisfying the social expectations of the Bulgarian people.

It is therefore recommended that the Government of Bulgaria reappraise and upgrade the role of the housing sector within the national transition policy. The preparation of a national housing strategy would define this political priority by clarifying central goals and specific strategies and actions.

### 2. The institutional framework and delegation of responsibility for housing

A reasonable degree of consistency and stability is needed to secure a satisfactory development in the housing sector. This requirement is particularly relevant to the institutional framework responsible for housing, and to the division of responsibility through this framework.

Bulgaria suffers, together with most countries in transition, from two central weaknesses in this respect:

- (i) The Government has, during the transition period, effectively withdrawn from most practical and economic responsibilities for housing;
- (ii) No delegation of authority or creation of institutions has been carried out at lower levels during the transition. On the contrary, the Government

has retained extremely centralized decision-making and regulation powers for all major aspects of housing.

One result of this paradox of housing policies is very weak, or non-existent political and administrative structures for the formulation and execution of housing policy at local government level. This weakness of the institutional framework is even felt in the capital, Sofia.

This lack of formal structures and real responsibility for housing at local government level could undermine the further development of housing in Bulgaria. The housing policy freedoms granted to local governments are today reduced to allocating to households on a State-regulated waiting-list, vacant public housing units, according to State-regulated criteria, and at State-regulated rents.

Although present central government institutions and processes in the housing sector seem adequate for the tasks ahead, the establishment of frameworks, flexibility

and responsibility for housing at local government level are essential.

It is therefore recommended that the national housing strategy should build on the principle of shared authority and responsibility for housing between central and local governments. New political and administrative structures are urgently required at local government level to adequately take care of, and exploit, such delegated powers.

### 3. The legal framework

During the transition period, the Bulgarian Government has given priority to major commercial law reforms based on the need for general economic reform.

Whilst economic issues, restitution and privatization have received adequate legal attention during the transition, this has not been the case for the housing sector. The transition period has not seen any major housing sector legislation enacted, nor have such bills passed Parliament. The lack of political focus on the legal requirements of the housing sector reflect its general lack of political priority.

The existence of a functioning legal framework is a prerequisite for a functioning market-oriented housing sector with a social policy component. Bulgaria does not have such a framework at present.

Certain cornerstones of the legal system must be in place for the housing sector to function:

- (i) Constitutional rights of citizens and foreigners to own and inherit property, freedom of contract and the right to privacy;

- (ii) Division of authority and responsibility between different government levels (central/local);
- (iii) Law on real estate, including a comprehensive system for land registration. This would gradually allow for a relaxation of the present restriction on the sale and purchase of real estate, particularly for local authorities and foreigners;
- (iv) Law on rental housing, providing tenant protection, and relaxing rent controls in public sector housing;
- (v) Law on condominium ownership (multi-dwelling housing stock), regulating ownership, management, financing, etc;
- (vi) Law on cooperative ownership;
- (vii) Law on housing, finance and credits;
- (viii) Law on housing subsidies.

At present Bulgaria has only fragments of the above legal structure. Because of the lack of legal tools, the Council of Ministers uses the constitutional regulations of article 114, which provide for sub-legislative normative acts of the Council, thus substituting legislation approved by Parliament.

It is therefore recommended that the Bulgarian Government should start preparing for the rapid introduction of the legal instruments required for the housing sector.

### 4. The economic framework

Key economic indicators illustrate the fact that during the transition period the Bulgarian housing sector has contributed to slowing down the recovery of the economy. Investment in housing as a share of total investment in Bulgaria is considerably lower than in other countries in transition.

A major contributing factor to this decline is the collapse of private-sector investment in housing. In Bulgaria, individual housing construction and private ownership have traditionally been more important than in other countries in transition.

The main cause of a reduction in private-sector investment in housing is the low level of household

income compared to the high level of construction costs and house prices during the transition.

The lack of a functioning system of mortgage loans is making matters worse for private households and other investors in housing. The present level of inflation puts the available system of housing credits beyond the reach of the vast majority of Bulgarian households. This has a direct impact on investment in the construction of new housing.

High inflation and the lack of political priority given to the special economic requirements of the housing sector are, therefore, major factors preventing this sector from contributing to a sustainable process of economic recovery in Bulgaria.

It is therefore recommended that Bulgarian economic policy should incorporate housing as an important contributor to sustained growth. It is further recommended that the present system of mortgage credits should be improved to make it accessible to more Bulgarian households.

Although most indicators on the affordability of housing in Bulgaria have worsened significantly during the transition, average household expenditure on housing does not exceed 10-15 per cent of household income. Although expenditure on food now consumes about 50 per cent of average household income, the expenditure on housing by Bulgarian households is still low compared to western European countries.

In particular the rent levels in public-sector housing constitute only 1-2 per cent of average household income. This extremely low, centrally-controlled rent does

not serve any meaningful social objective. By preventing urgently needed maintenance and repair, it also threatens the future usefulness of some of this housing stock.

The present rent policy in Bulgarian public housing is regarded as a general indirect housing subsidy which is both socially and economically inefficient.

The absence of a clearly defined housing allowance system is probably the single most important factor preventing a more constructive and socially just rental policy in Bulgarian housing.

It is therefore recommended that the present strict regulation on rent in Bulgarian public housing should be relaxed and differentiated. A necessary basis for such change is the parallel introduction of a national housing allowance system.

### **5. Housing supply and quality of existing housing**

Statistical data indicate that the housing supply, measured in dwellings per 1,000 population, is acceptable even by western European standards.

The existing dwelling stock is also new, of reasonably high standard, and with acceptable amenities. The statistical information does, however, tend to cover up the large and rapidly increasing need for major repair and renovation in even the most modern stock. If further

deterioration and eventual loss of the dwelling stock are to be avoided, the highest priority should be given to measures to make investment for repair and renovation available. Such investments can become available only through a combination of rent increases, subsidized public funds (State and local authorities), and acceptable mortgage credit instruments.

Furthermore, it is strongly recommended that modernization programmes should include measures to cut the waste of energy in major parts of the housing stock.

It is therefore recommended that the Government should take the necessary steps and initiatives to create investment possibilities for the repair and renovation of the existing dwelling stock.

Especially energy-efficiency related investments in large housing estates, including an improvement of the district heating system itself and a new design for small and medium-scale co-generation units, may be the strategic variable which can leverage additional investments in related fields.

A critical factor for new housing construction and prices of new dwellings is the public availability of land for housing purposes. Available data indicate that even

the capital city Sofia has an extremely limited amount of land available for new dwellings. This factor can become a decisive bottleneck, slowing down new construction.

It is therefore recommended that, as part of the national housing strategy, the Government should encourage local authorities to increase their land reserves designated for new housing development.

### **6. Homelessness and social need for housing**

The need for social dwellings has undoubtedly increased markedly during the transition period. At present about 88 per cent of the population has a registered income below the calculated Minimum Social Standard, and about 67 per cent has a registered income below the

Minimum Living Standard. This dramatic reduction in living standards coincides with the collapse in the construction of new public-sector dwellings.

Local authorities are legally obliged to maintain and update waiting-lists for public-sector dwellings according to specific government-regulated criteria.

The Government considerably tightened the eligibility criteria for public social housing in 1994. As a result, the officially accepted number of people on the waiting-list for social housing plummeted. This reduction contradicted the development of living standards during the same period.

The present policy of not explicitly recognizing the existence of homelessness and the unsatisfactory official registration of the need for social housing run contrary to the acceptance that a dwelling is an important component of the quality of life.

It is therefore recommended that the Government should give priority to assessing homelessness and the need for social housing more accurately. There is also an urgent need to clarify policies on these problems and to develop practical tools to resolve them.

**7. The country profile graph—  
Summary presentation**

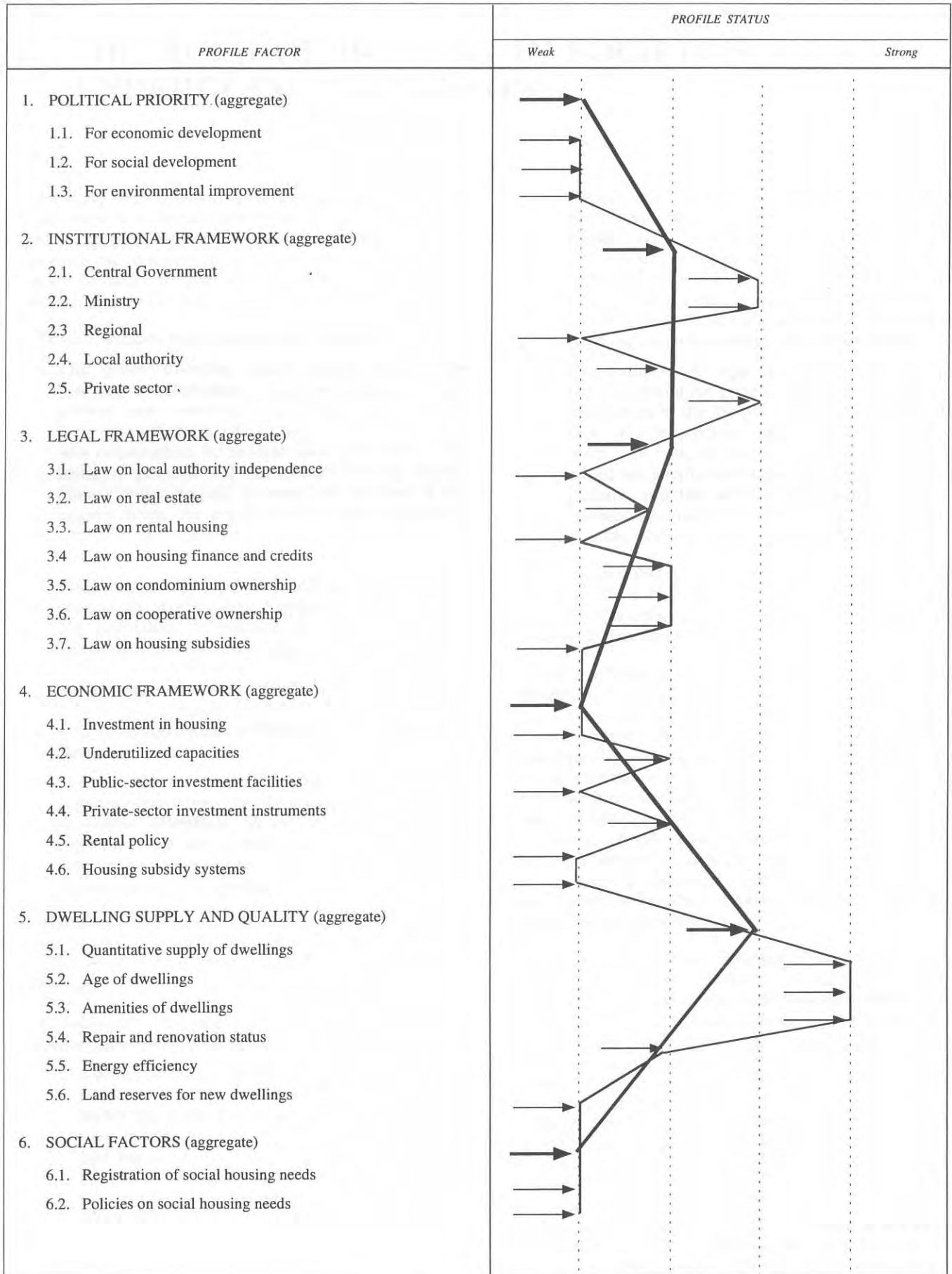
The figure below shows the country profile graph on housing for Bulgaria as of 1995/96.

It should be underlined that the graph is the considered subjective summary of the expert team's view at

the conclusion of this study. It presents the overall state of the housing sector in Bulgaria, and the range of challenges ahead.

Apart from the existing supply and quality of dwellings, these challenges need urgent consideration and action. It is the view of the expert team that such action will prove beneficial to, and accelerate, the process of transition in Bulgaria.

**Bulgaria**  
**The country profile graph, 1995/96**



# I. THE ROLE OF HOUSING IN SOCIETIES UNDERGOING TRANSITION

Housing sector reform in central and eastern Europe is not seen as a central issue when assessing the performance and prospects of their economies. In general it is assumed that housing as a "consumption good" will, sooner or later, be provided according to consumers' preferences without major governmental interference.

Several reasons might support this argument:

- **The given dwelling stock largely determines housing consumption.** Even in periods of high growth, new dwelling construction rarely exceeds 2 per cent of the existing stock a year. Neglecting new construction for several years may merely trim some 10 per cent off the overall housing supply. Such a reduction will be even less relevant, if real income drops, the population decreases, household structures are stable, and no major migration takes place.
- **Massive State subsidies in all centrally planned economies provided the economic basis for housing provision.** In economies in transition, even more than in the traditional market economies, narrowing State budget deficits and fighting hyperinflation are primary goals. Cutting housing subsidies is consequently regarded as one of the most evident options when redefining the involvement of the public sector.
- **Export-oriented sectors rather than domestic consumption are the focus of political and economic attention.** When creating production capacities that are competitive on open markets, new technologies often have to be imported so foreign currency is needed.

The above arguments are certainly valid, and as a result abandoning State responsibility for housing is today a generally accepted concept in the countries in transition.

Consequently, the ongoing housing sector reform in transition economies is based on three major policy tools:

- (i) *Decentralization.* Where responsibility for the housing sector rested with central authorities under the former system, local authorities are now in charge of managing the dwelling stock and handling the housing sector. Frameworks, structures, resources and experience to properly take over this task are, however, missing in most cases;
- (ii) *Privatization.* In general the privatization of dwellings has been seen as an opportunity to

"hand over" former State property to tenants, to turn them into "owner-occupiers" of condominium-type flats. The responsibilities of the new owners are often weakly defined, and institutional frameworks for a functioning community of owners hardly exist. Different forms of tenure within single buildings tend to completely paralyse decision-making and administration;

- (iii) *Deregulation.* A rigid system of State control left little room for private initiative on the housing market in the former system. At present, the lack of a legislative framework, land management, and housing finance systems, the need to adjust the supply-side structures to new demand patterns and the lack of purchasing power of households, make the emergence of a market-oriented housing sector a major challenge.

This present policy by Governments of "leaving the housing sector alone" will, according to the expert team, aggravate economic problems rather than support the transition to a market economy.

New housing construction is sharply down in most countries in transition, and the maintenance of the existing housing stock is seriously neglected. Consequently, the housing stock continues to deteriorate. The dwelling stock typically represents some 25 per cent of all reproducible national assets and yearly gross fixed capital formation in residential buildings amounts to roughly 5 per cent of gross domestic product on average in western Europe. Accelerated depreciation of the dwelling stock may therefore markedly reduce the net improvement of housing consumption in the future, or limit the growth potential in other economic sectors if repair and modernization are postponed.

By accepting the malfunctioning of the housing sector as one of the "minor problems" in transition another, closely related problem emerges. Distorted price structures, especially in the energy sector, where heating and electricity were treated as "free commodities", have, together with obsolete construction technologies and systems of energy provision, resulted in extreme overconsumption of energy in the housing sector with no incentives for energy saving. With energy prices increasing and reaching world market levels in some transition countries, running expenses for heating cause a major problem of affordability for the individual household and call for drastic measures. Whether energy is imported or exported, whether the affordability problem is left to the individual household or the burden is shifted to tax payments and State budget, the excessive waste of this

resource in the dwelling stock requires serious macro-economic consideration.

In conclusion, the performance of housing as an important sector of the economy is constrained by the present housing policies in economies in transition. Removing these constraints depends only to a very limited extent on foreign know-how or imported goods. Land,

often still in State ownership, labour capacity, building materials and technological know-how are readily available or should not be a major problem.

The removal of the constraints on the housing sector is therefore primarily a question of national priority. Giving housing an appropriate, higher priority should also contribute to accelerating the total transition process and making it more efficient.

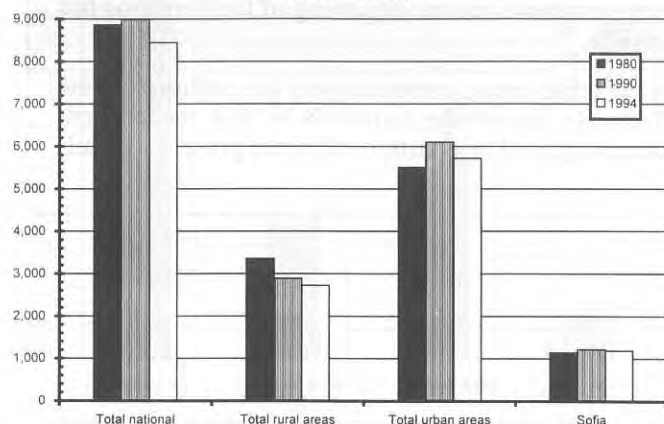
## II. POPULATION

### A. Population development 1980-1994

The total population of Bulgaria increased by 130,000 during the period 1980-1990; it fell by 550,000 between 1990 and 1994.

The urban population rose by 590,000 between 1980 and 1990, then decreased by 380,000 between 1990 and 1994. The rural population declined steadily during the whole period, by 630,000 from 1980 to 1994 (fig. I).

FIGURE I  
Population development, 1980-1994  
(in thousands)



Sources: Annual Bulletin of Housing and Building Statistics for Europe and North America, 1995, UN/ECE, and Statistical Yearbook, 1993, NSI.

### B. Internal migration

Within the country there has been a marked increase in migration from 104,000 in 1980 to 179,000 in 1993

TABLE I  
In-country migration, 1980-1993  
(in thousands)

	1980	1990	1993
<b>Rural areas:</b>			
—Total migration <sup>a</sup>	78.0	105.6	125.5
—Net migration	-37.2	-15.4	-14.9
<b>Urban areas:</b>			
—Total migration <sup>a</sup>	130.2	201.1	233.3
—Net migration	37.2	15.4	14.9
<b>Sofia:</b>			
—Total migration <sup>a</sup>	10.9	19.5	28.1
—Net migration	3.1	-1.9	1.8

Source: NSI bulletin, Population, 1980, 1990, 1993.

<sup>a</sup> Sum of in- and out-migration.

(table 1). Throughout this period the rural areas have lost population to the cities. The capital city Sofia does not, however, attract as many migrants as could be expected.

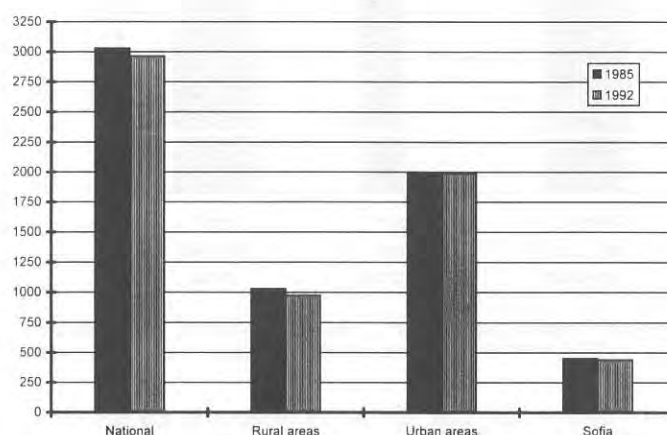
### C. Emigration

In the period 1991-1993 annual average net emigration from Bulgaria to western countries was 13,000 compared with some 85,000 from Albania and 7,000 from Hungary.<sup>1</sup>

### D. Household formation

The number of households in Bulgaria decreased by 2.2 per cent between the two census years 1985 and 1992. The major part of this reduction took place in the rural areas as a consequence of the considerable population loss there. The urban areas as a whole have only maintained their number of households from 1985 to 1992 with a small increase in Sofia, despite the increase in population during this period (fig. II).

FIGURE II  
Number of households, 1985-1992  
(in thousands)



Source: NSI, 1992 census results, vol. IV, 1994.

<sup>1</sup> Source: Economic Survey of Europe in 1994-1995, UN/ECE.



TABLE 2  
Persons per household, 1985 and 1992

	1985	1992
National	2.9	2.9
Rural areas	3.2	2.9
Urban areas	2.8	2.9
Sofia	2.5	2.6

Source: Expert estimates.

Estimates of the number of persons per household show significant changes from 1985 to 1992. Whilst the national average remains approximately constant at 2.9 persons per household, the rural average *decreased* by 0.3 persons per household. The urban average *increased* by 0.1 persons per household, which was also the increase in Sofia (table 2).

#### Summary of core issues

The transition put an end to the internal migration of the population from rural to urban areas. The transition period has seen a considerable net emigration from Bulgaria, and a sharply reduced, constant rate of net migration from rural to urban areas.

The availability of housing is one important factor influencing the formation of new independent households. The opportunity to choose when and where to establish one's own household is an important aspect of the quality of life. It is also important from a macroeconomic point of view, particularly with regard to the mobility of labour.

Both the general decrease in the number of households and the different trends of household size within the country seem strongly to support the view that the housing situation since the beginning of the transition has negatively affected the formation of new, independent households.

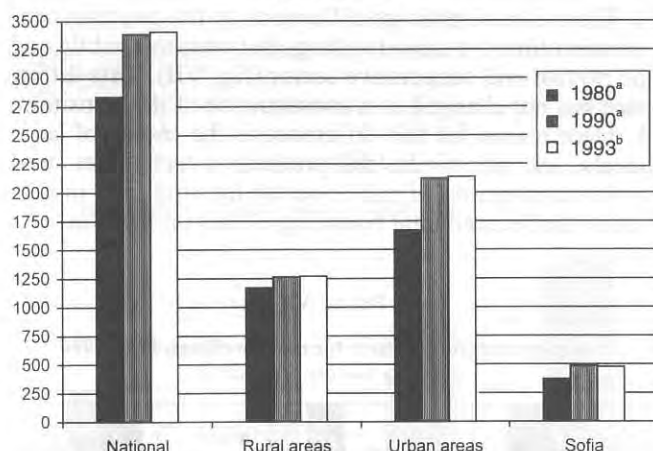
In particular, the approximately constant population in the urban areas, combined with the collapse of new housing construction in these areas after the transition effectively hinders the formation of new independent households. Economic expansion in these areas, although necessary, will be constrained by the present unavailability of housing.

### III. HOUSING QUALITY AND CONSTRUCTION OF NEW DWELLINGS

#### A. The existing dwelling stock

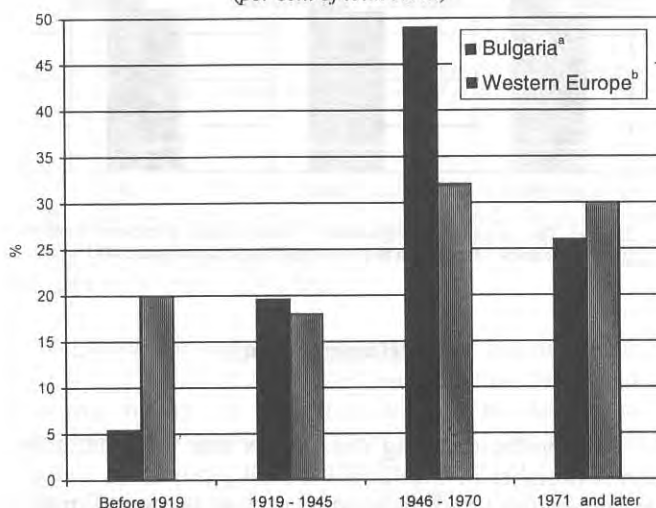
By the end of 1993 the total dwelling stock in Bulgaria (used and vacant), contained 3,406,000 dwellings. The average yearly increase in the period 1980-1990 was 1.9 per cent.

FIGURE III  
Number of dwelling units, 1980-1993  
(in thousands)



Sources: <sup>a</sup>Annual Bulletin of Housing and Building Statistics for Europe and North America, UN/ECE. <sup>b</sup> NSI, unpublished data.

FIGURE IV  
Dwelling stock by year of construction, 1993  
(per cent of total stock)



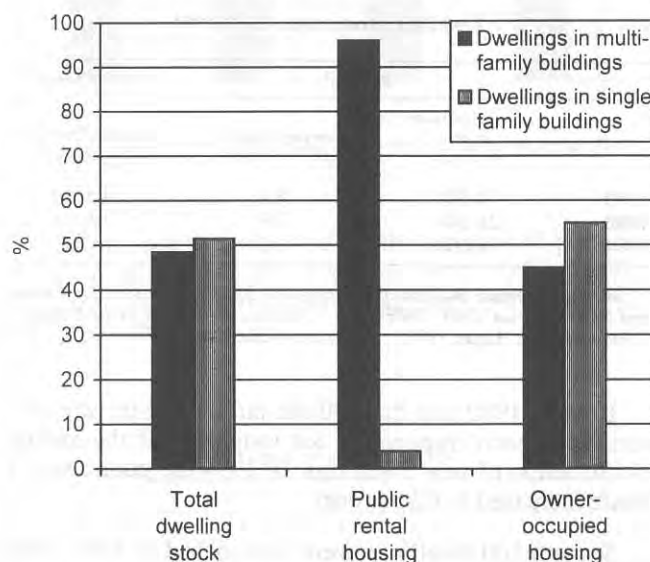
Sources: <sup>a</sup>Annual Bulletin of Housing and Building Statistics for Europe and North America, UN/ECE. <sup>b</sup> Expert estimates based on Statistics on Housing in the European Community, The Hague, 1992.

During the transition period 1990-1993, this average yearly increase fell back to 0.18 per cent. In Sofia, the total available housing stock even decreased during this period.

Compared to most western European countries, Bulgaria's dwelling stock is fairly new. Only 25 per cent of the total stock was built before 1945, about 26 per cent was built after 1970, while 49 per cent was completed in the period 1946-1970 (fig. IV).

The division of the existing dwelling stock by type of buildings shows significant differences between public rental and owner-occupied dwellings. Whilst, as could be expected, nearly 100 per cent of public rental dwellings are in multi-family buildings, surprisingly, as much as 45 per cent of owner-occupied housing is also found in this category. The active sale of public flats before and after the transition and the privatization process have contributed to this situation (fig. V).

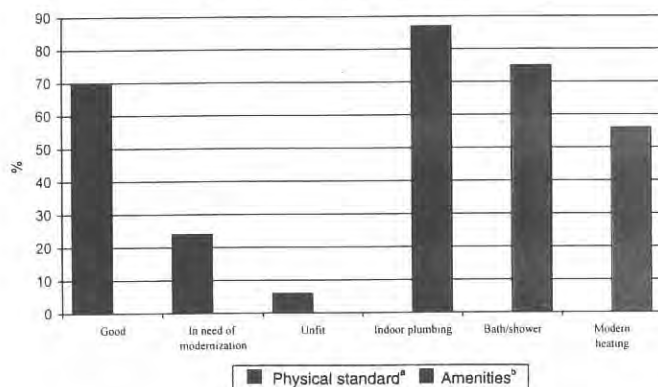
FIGURE V  
Dwelling stock by type of building and tenure, 1993



Source: The Indicators Programme, "Central-East European Regional Housing Indicators", Hungarian Metropolitan Research Institute (MRI).

There are at present no formal statistics or objective measurements of the physical standard of the dwelling stock in Bulgaria. Estimates by national experts indicate, however, that the general standard of the stock is quite high. This view is confirmed by available statistics on amenities (fig. VI).

FIGURE VI  
Standard of dwelling stock, 1995  
(per cent of total dwelling units)



Sources: <sup>a</sup> Expert estimates. <sup>b</sup> The Indicators Programme, "Central-East European Regional Housing Indicators", Hungarian Metropolitan Research Institute (MRI).

NOTE: The estimates on physical standard do not consider the repair and maintenance situation of the stock and are relative assessments.

## B. New housing construction

New housing construction decreased sharply from 1980 to 1990 and fell further during the period of transition. The number of new dwellings completed in 1994 was 11.7 per cent of the level of new construction in 1980 (table 3).

TABLE 3  
Dwelling production, 1980-1994

	Bulgaria <sup>a</sup>		Western Europe <sup>b</sup>
	Annual increase in new dwellings	New dwellings per 1,000 inhabitants	New dwellings per 1,000 inhabitants
1980	74 308	8.4	4.3-8.1
1990	26 044	2.9	3.5-6.6
1994 <sup>c</sup>	8 668	1.0	..

Sources: <sup>a</sup> Annual Bulletin of Housing and Building Statistics for Europe and North America, 1993, UN/ECE. <sup>b</sup> Statistics on Housing in the European Community, The Hague, 1993. <sup>c</sup> NSI, unpublished data.

Both in 1980 and in 1990 the public and private sectors were each responsible for roughly half the annual construction of new dwellings. In 1994 the public sector share increased to 62 per cent.

Some 2,100 dwellings were demolished in 1990. This number was reduced to approximately 750 in 1994. It is estimated that most of this demolition took place in the private sector.

The average floor space of new dwellings increased gradually between 1980 and 1990. During the transition period average floor space has grown considerably faster (table 4). It is of interest to note that the markedly larger average dwelling size of new production in the private sector in 1980 and 1990 is not evident in 1994. This is probably due to the surprisingly sharp increase in the size of dwelling units produced by the public sector

during that year, and the decrease in the ability of the majority of the population to invest in private-sector housing.

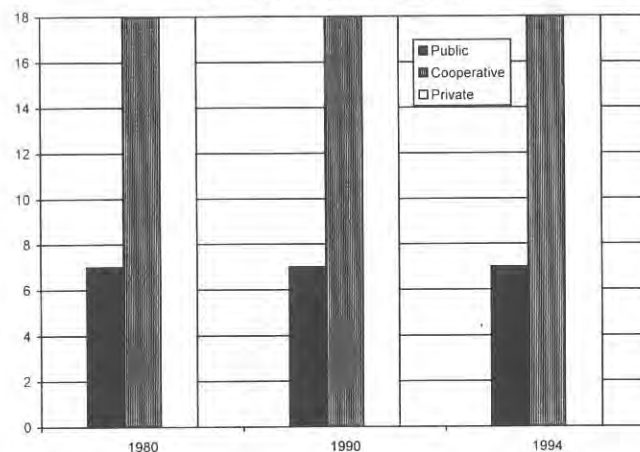
TABLE 4  
Average floor space of new dwellings in the private and public sector, 1980-1994  
(square metres)

	Bulgaria <sup>a</sup>			Western Europe <sup>b, c</sup>
	Private sector	Public sector	Total	Total
1980	64.1	54.3	59.0	69-135
1990	78.6	64.9	71.6	
1994	86.9	82.0	83.8	

Sources: <sup>a</sup> The Indicators Programme, "Central-East European Regional Housing Indicators", Hungarian Metropolitan Research Institute (MRI). <sup>b</sup> Statistics on Housing in the European Community, The Hague, 1993. <sup>c</sup> Data refers to 1992.

There is a significant difference in the average construction time for new dwellings between the public and the private and cooperative sector (fig. VII). This difference has not changed as a consequence of the transition. A major reason for this difference is the choice of large panels, and other industrial production techniques used in the construction of public-sector housing, and in particular the secured total financing of this production.

FIGURE VII  
Average construction time for new dwellings, 1980-1994  
(average number of months)



Source: The Indicators Programme, "Central-East European Regional Housing Indicators", Hungarian Metropolitan Research Institute (MRI).

## C. Housing supply

Data on the dwelling stock show that in quantitative terms (number of dwellings), housing provision in Bulgaria is quite good even compared to western Europe. The number of dwellings per thousand of population is not, however, in itself a satisfactory indicator of housing standards. As a result of the population development during the transition period, when the rural population

decreased considerably, data for the rural areas show a particularly high rate of dwellings per 1,000 inhabitants (table 5).

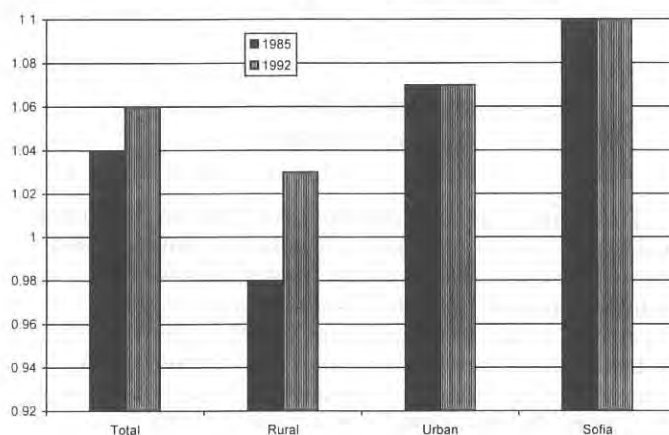
TABLE 5  
Dwellings per 1,000 inhabitants, 1980-1994

	Bulgaria <sup>a</sup>		1994	Western Europe <sup>b, c</sup>
	1980	1990		
Total	321	391	405	390-460
Rural	355	443	469	
Urban	300	365	375	
Sofia	326	399	400	

Sources: <sup>a</sup> NSI, *Statistical Yearbook, 1993*—Population 1981, 1991, 1993. NSI bulletin, *Housing Stock, 1980, 1990, 1993*. <sup>b</sup> *Statistics on Housing in the European Community, The Hague, 1992*. <sup>c</sup> Data for 1990.

Since the total number of households decreased in the period 1980-1994, the development in the number of households per occupied dwelling reflects the collapse in new construction after the transition period started (fig. VIII).

FIGURE VIII  
Households per occupied dwelling unit, 1985-1992



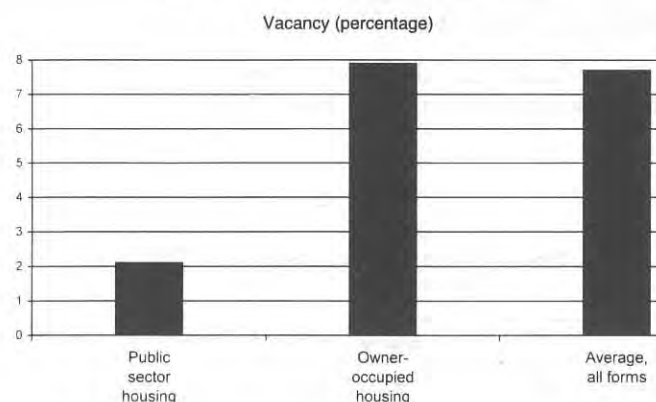
Sources: NSI, *General Characteristics of the Housing Stock in the Republic of Bulgaria, 1988*. NSI, *Housing Stock and Standard of Living, 1989*. Census data, 1992.

The data in table 6 combined with the population trend (see chap. II) indicate a considerable increase in vacant housing units in rural areas. This is confirmed by the data on vacancy (fig. IX).

Available data on the spatial quality of housing measured by living floor space per person show that standards rose before the transition, but that no further improvement has taken place since (fig. X). At the same time the spatial standard of the Bulgarian housing stock is much lower than that in western Europe, where this indicator varies between 26 and 43 m<sup>2</sup> per person.<sup>2</sup>

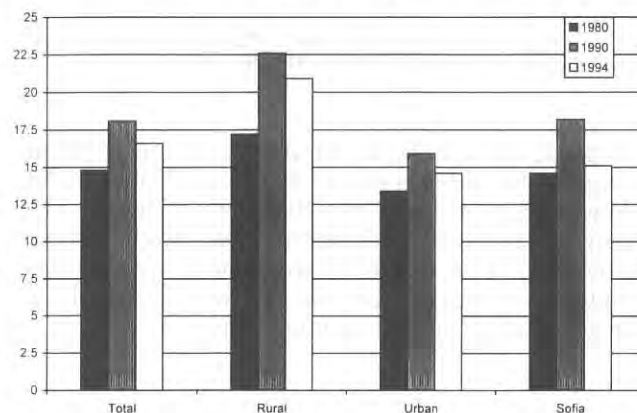
<sup>2</sup> *Statistics on Housing in the European Community, The Hague, 1992*.

FIGURE IX  
Proportion of vacant housing units, 1994



Source: NSI bulletin, *Housing Stock*.

FIGURE X  
Living floor space per person, 1980-1994  
(square metres)



Sources: NSI, *Statistical Yearbook, 1994*. NSI bulletin, *Housing Stock, 1980, 1990, 1994*.

Housing quality measured by the number of persons per room also shows improvement from 1985 to 1992, with no further improvement taking place between 1992 and 1994 (table 6).

TABLE 6

Persons per room, 1985-1994

	1985 <sup>a</sup>	1992 <sup>b</sup>	1994 <sup>c</sup>
Total	1.2	1.0	1.0
Rural	1.0	0.8	..
Urban	1.3	1.2	1.2
Sofia	1.3	1.2	..

Sources: <sup>a</sup> NSI, *General Characteristics of the Housing Stock in the Republic of Bulgaria, 1988*. NSI, *Housing Stock and Standard of Living, 1989*. <sup>b</sup> Census data, 1992. <sup>c</sup> NSI, preliminary data.

#### D. Forms of tenure

The structure of tenure forms in the Bulgarian housing stock differs from that in the majority of countries in

transition or western European countries. The extremely low percentages of both public and private rental housing have significant consequences for the functioning of the housing market (table 7).

The available data do not show any significant difference between urban and rural areas in this regard.

TABLE 7  
Tenure structure of the housing stock, 1993  
(per cent of total dwellings)

	Bulgaria <sup>a</sup>	Western Europe <sup>b, c</sup>
Owner-occupied	90.3	40-70
Rental:		
—State and municipal	3.8	
—Departments and State enterprises	2.8	23-56
—Other public	0.2	
—Private rental	2.9	
Other	..	4-7

Sources: <sup>a</sup> NSI, *Statistical Yearbook, 1993*. <sup>b</sup> *Statistics on Housing in the European Community*, The Hague, 1992. <sup>c</sup> Data for 1990.

A particular feature of housing tenure in countries undergoing transition is the combination of public rental, and owner-occupied flats in multi-family buildings. This is also a characteristic of the Bulgarian dwelling stock (see table 7). This type of *mixed ownership* is an inescapable consequence of the privatization policies adopted by most countries in transition.

#### E. Restitution and privatization

The percentage of total dwelling stock which has been restituted to its owners during the transition period is not significant (table 9). All restitution of housing did, of course, take place in the public housing sector. As a

TABLE 8  
Tenure forms in multi-family housing stock, 1994

Public rental	70 per cent
Owner-occupied	30 per cent

Source: The Indicators Programme, "Central-East European Regional Housing Indicators", Hungarian Metropolitan Research Institute (MRI).

TABLE 9  
Restituted housing by end-1994  
(share of total stock)

Total	0.35 per cent
Rural	0.08 per cent
Urban	0.50 per cent
Sofia	1.16 per cent

Source: NSI, *The Restitution in the Republic of Bulgaria, 1995*.

share of this sector, restitution has been more significant, at approximately 12 per cent of the dwelling stock owned by the public sector in 1990.

There are no data available on the privatization of the dwelling stock during the transition period. Data for Sofia indicate that in the capital a total of approximately 10 per cent of public-sector housing there was sold to sitting tenants during 1991 and 1992. Privatization of housing has been stopped since the beginning of 1994.

#### F. Land available for new housing construction

There are no general statistics available on developed and zoned land for housing purposes in Bulgaria. Estimates by experts, based on the master plan for Sofia, do indicate, however, that the municipality owns only about 5 per cent of all developed land zoned for new housing in the capital. The distribution of the remaining 95 per cent of land for housing between the State, public companies and the private sector is not established.

### Summary of core issues

It must be underlined that Bulgaria's current dwelling stock can largely meet future demand. The quality and quantity of future housing are therefore crucially dependent on the way in which this present stock is preserved.

The available statistical data indicate that the existing dwelling stock is new, of a reasonably high standard and has acceptable amenities.

These statistics do, however, tend to cover up the large and rapidly increasing need for major repair and renovation existing in even the more modern parts of the stock. This is particularly the case for multi-family buildings where the choice of construction techniques and materials has led to a rapid deterioration and a need for investment in order to keep, and upgrade, their quality.

Such investment is presently not available in the public or the private sector. If further deterioration and eventual loss of dwelling stock are to be prevented, the availability of investment for repair and renovation should have the highest priority within the Government's housing policy. Such funds can become available only through a combination of rent increases, subsidized public funds and the creation of ordinary financial lending institutions in the housing sector. All of these elements are vital government policy responsibilities.

The production of new housing in Bulgaria virtually collapsed during the transition period. This development has been marginally more serious in the private than in the public sector.

The collapse of production of new housing in the public sector is a direct consequence of the low political priority given to housing during the transition period.

The collapse of production in the private sector seems mainly attributable to the lack of suitable financial institutions and instruments for new housing, and to the sharp reduction in purchasing power among the general population.

The resulting very low production of new housing, and hence low increase in the availability of housing, is assumed to be a major contributing factor in the changed pattern of in-country migration and the reduced rate of new household formation throughout the transition period.

A surprisingly high proportion of private-sector housing is found in multi-family buildings. This physical form of private ownership requires clear legal, organizational and administrative structures in order to function efficiently (see chap. VI).

It is somewhat surprising that the average size of new dwellings produced in the public sector increased markedly during the transition period. It is felt that the need for new dwelling stock, particularly in the urban areas, combined with the general low ability of the general population to pay real rent costs, should lead to a policy of creating a larger number of smaller dwellings. This does not seem to have happened so far.

A critical factor in the future production and price of new housing is the public availability of land for housing purposes. Although available data are limited to Sofia, the present situation there indicates the municipality's low ability to influence the volume of new production or the price of new housing by controlling land available for housing development.

## IV. HOUSING ECONOMICS AND AFFORDABILITY

### A. Housing and the national economy

#### 1. Highlights of recent macroeconomic developments

Following a 7.3 per cent drop in GDP in 1992 and a 1.5 per cent drop in 1993, the aggregate output of the Bulgarian economy increased by 1.8 per cent in 1994 and 2.5 per cent in 1995. This is a significant development not only for Bulgaria, but for other central European countries in transition. In most of these countries the economy picked up even faster during this period than in Bulgaria, reflecting the uneven progress of market reforms and differences in economic policies (table 10). The 1994 upturn marked a long-awaited reversal of recessionary trends, which had dominated the country since the transition started.

TABLE 10  
Economic growth in selected European countries in transition, 1992-1996  
(in per cent)

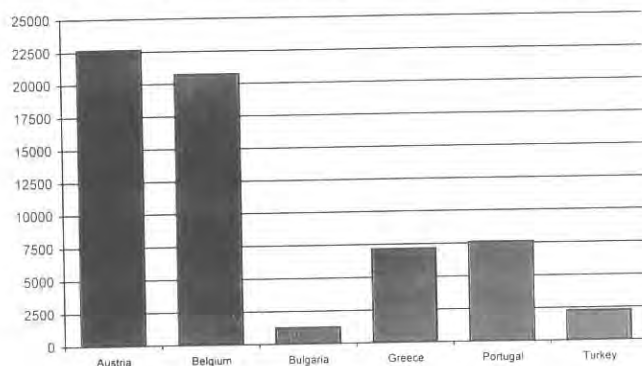
Country	1992	1993	1994	1995	1996 (forecast)
Bulgaria	-7.3	-1.5	1.8	2.5	3.0
Czech Republic	-6.4	-0.9	2.6	5.2	4.8
Poland	2.6	3.8	5.2	7.0	5.5
Romania	-8.8	1.5	3.9	6.9	4.5
Slovenia	-5.4	1.3	5.3	4.8	5.0

Source: *Economic Survey of Europe in 1995-1996*, UN/ECE, 1996.

At the same time, it should be noted that the level of Bulgarian GDP per capita is considerably lower than in the market economies of western Europe (fig. XI).

FIGURE XI

#### GDP per capita according to 1993 prices and US\$ exchange rate



Source: UNDP, *Bulgaria, Human Development Report*, 1995.

The expansion of the private sector is believed to be the main driving force behind the recent recovery in output. However, the share of the private sector in GDP in Bulgaria was 23 per cent in 1994 compared with 62 per cent in the Czech Republic, 70 per cent in Hungary and some 50 per cent in Poland. (Source: *Economic Survey of Europe in 1994-1995*, UN/ECE, 1995.)

Inflation in Bulgaria seems to be more resistant than in some other countries in transition as a result of substantial currency devaluations and large budgetary spending, as well as increases in domestic tax rates and energy prices. Among the east European countries, only in Bulgaria was consumer price inflation in 1994 higher than in 1993 (96 per cent in 1994 compared with 72.9 per cent in 1993).

New investments and, in particular new fixed investments, are essential for economic recovery in any economy in transition and are a major determinant of its medium-term growth patterns. In the last few years, in some countries in transition (Czech Republic, Poland, Romania, Hungary) investment rose. However, in Bulgaria, investment trends declined steadily, probably because of the slow pace of reforms and the high level of uncertainty, which is an indicator that economic recovery in Bulgaria might not be sustainable (table 11).

TABLE 11  
Investment in selected countries in transition  
(annual percentage change)

Country	Gross capital formation			
	1992	1993	1994	1995
Bulgaria	-11.0	-20.2	-10.1	..
Czech Republic	-17.6	-2.2	22.1	34.7
Hungary	-21.7	35.5	16.3	..
Poland	-13.0	14.9	9.0	..

Source: *Economic Survey of Europe in 1995-1996*, UN/ECE, 1996.

#### 2. Investments in housing

One of the key factors in raising the capacity for growth-with-employment is the rate of fixed investments, in particular in the construction sector of the economy (including housing). However, housing was clearly given low political priority in the transition strategy of the first democratically elected Government. Before transition, the housing sector was the third largest item in national budget expenditure (after education and

health). In 1995, housing was last but one (before the item on culture). The share of housing in total investment declined from 13.0 per cent in 1980 to 8.7 per cent in 1991 and 5.0 per cent in 1993 (table 12). In western European countries investments in housing constituted some 20-30 per cent of total gross fixed capital formation in 1990-1995. The collapse of housing construction is clearly evident within the general decline of the construction industry.

TABLE 12  
Investment in housing in some central  
and east European countries  
(as percentage of total investment)

Country	1980	1991	1993
Bulgaria	13.0	8.7	5.0
Hungary	17.8	22.3	14.8
Poland	20.9	27.8	22.2
Romania	9.3	10.1	5.9

Source: Annual Bulletin of Housing and Building Statistics for Europe and North America, 1995, UN/ECE.

In 1993 the value of total outstanding housing loans was only 1.85 per cent of all debts to commercial and public financial institutions. The data on new credits for housing purposes in 1993 confirm the low financial activity in the housing sector.

Private sector investment activity has suffered a heavier decline than the public sector, in a country where individual housing construction was much more prominent before the transition period in comparison with other countries in transition.

TABLE 13  
Total investment in housing as share of GDP, 1990-1993

	1990	1993
Housing investment	1.5 per cent	0.8 per cent

Source: NSI, Statistical Yearbook, 1991, 1994.

TABLE 14  
New housing credits, 1993

Housing credits as share of total new credits	2.4 per cent
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Source: The Indicators Programme, "Central-East European Regional Housing Indicators", Hungarian Metropolitan Research Institute (MRI).

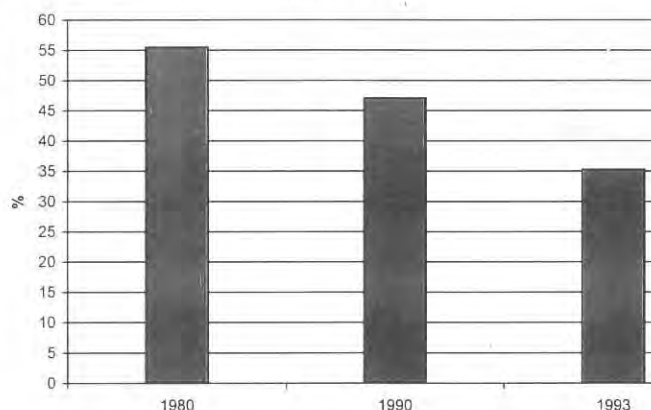
TABLE 15  
Private investment as share of total investment  
in dwelling construction, 1980-1994

1980	1990	1994
48 per cent	49 per cent	30 per cent

Source: The Indicators Programme, "Central-East European Regional Housing Indicators", Hungarian Metropolitan Research Institute (MRI).

FIGURE XII

Housing as share of total output of the construction industry, 1980-1994



Source: The Indicators Programme, "Central-East European Regional Housing Indicators", Hungarian Metropolitan Research Institute (MRI).

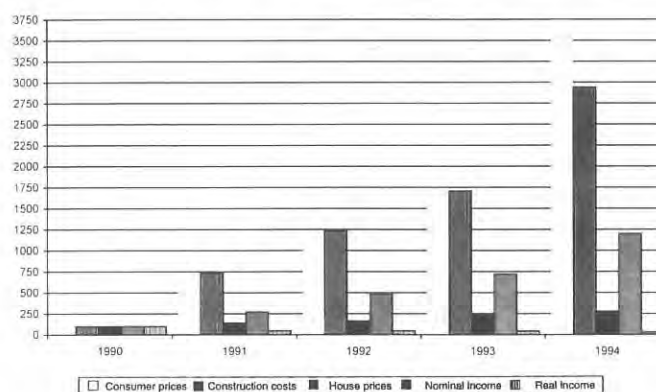
## B. Housing economics 1980-1994

### 1. Housing and inflation

The high inflation during the transition period has been accompanied by a rise in nominal income. The gap between income and prices has, however, grown continually since 1990. Real income has not kept pace with construction costs and house prices. Real income, which was low even before 1989 in comparison with the industrialized countries, has fallen sharply during the transition (fig. XIII).

FIGURE XIII

Consumer prices, construction costs, house prices and nominal and real income per capita, 1990-1994<sup>a</sup>



Source: The Indicators Programme, "Central-East European Regional Housing Indicators", Hungarian Metropolitan Research Institute (MRI).

<sup>a</sup> All indices based on yearly recorded change (31.12-31.12).

The increase in house prices is below general inflation. This decrease in the real value of housing makes private investment in the housing sector unattractive in the short and medium term (table 13).



TABLE 16  
General inflation and inflation of house prices, 1990-1994

	1991	1992	1993	1994
General inflation	474	79	64	122
House price inflation	40	17	42	20
House price inflation/ general inflation	0.08	0.22	0.16	0.66

Sources: Bulgarian National Bank, *Information Bulletin 1/19*. SSB, *Annual Report*, 1994. Expert estimates.

## 2. Taxation on housing

Total State and municipal revenue from all types of income tax was estimated to account for 0.5 per cent of all government revenues in 1994.

Both central and local government imposed only property tax and transfer tax on housing consumption in 1994. New constructions are exempt from property tax for the first five years.

TABLE 17  
Average property tax rate for a housing unit, 1993

	National	Sofia
Average property tax (leva)	270	320
Average price, housing unit (leva)	625 000	975 000
Tax rate	0.04 per cent	0.03 per cent

Source: Real estate agencies, expert estimates.

The Income Tax Law provides for the taxation of rents derived from real estate. If the claim that a large part of the rent is paid under the counter is true, this means that it cannot be taxed.

The Local Taxes and Fees Act provides for a building tax which is levied and collected by the municipalities, however the revenues received by the municipalities have been comparatively small.

Value added tax stands at 18 per cent on newly constructed housing and on transactions by all physical and legal persons. This tax burdens the housing construction sector as well as the sale of housing.

## C. Housing credit systems

Although all commercial banks in Bulgaria are legally able to undertake housing financing, in practice none have so far done so. The pre-transition monopoly of the State Savings Bank (SSB) in housing financing is, in effect, still in existence. The SSB itself believes that it covers 95 per cent of the housing construction market and 100 per cent of mortgage lending.

Given Bulgaria's present income situation, interest rates, mortgage instruments, construction costs and house prices, few households can afford loans covering

any significant proportion of housing costs. The bulk of the extremely low private investment in housing is provided by household savings. Such new production is promoted by private landowners in collaboration with small private developers.

The only existing mortgage instrument is an annuity credit offering a loan with a fixed rate of interest, fixed period of repayment and equal instalments. At the end of 1994 the principal conditions for such mortgages from SSB were:

- (a) Maximum credit: 70 per cent of total investment;
- (b) Rate of interest:
  - (i) If borrower has a long-term bank deposit: 72 per cent p.a.;
  - (ii) If borrower has no long-term bank deposit: 77 per cent p.a.;
- (c) Maximum period of repayment: 20 years;
- (d) Maximum monthly instalments: 50 per cent of monthly household income.

On these conditions the purchase of a flat costing 430,000 leva with a maximum mortgage loan would require a monthly repayment of 13,536 leva. The necessary household income per year to repay this mortgage would be:

- If repayment covers 20 per cent of gross income: 812,160 leva;
- If repayment covers 30 per cent of gross income: 514,446 leva;
- If repayment covers 40 per cent of gross income: 406,080 leva;
- If repayment covers 50 per cent of gross income: 324,864 leva.

Since national average household income stood at 116,754 leva in 1994, it is not surprising that only 5,557 private clients applied for housing mortgages that year.

### 1. The mortgage loan situation

The available statistics on mortgage loans during the period of transition from 1991 to 1994 show clearly the sharp decline in the private sector's use of this only available credit facility for housing purposes (table 18).

The mortgage debts to SSB (outstanding loans) of municipalities and other public investors amounted to 4,941 million leva at the end of 1993. The lack of funds in the municipal budgets led to an increase in overdue loans from 238 million leva in 1991 to 1,778 million leva at the end of 1993. The situation worsened in 1994 to 2,559 million leva. Faced with the impossibility to continue financing unfinished public housing, the central Government has been forced to cover a large portion of public overdue loans at the end of each fiscal year. For 1994 this grant amounted to 885.4 million leva, covering the principals of all municipal overdue loans.

TABLE 18

## Loans for the construction and purchase of housing, 1991-1994

		1991	1992	1993	1994
<b>TOTAL LOANS</b>					
Amount of granted loans	million leva	981	1 283	912	..
Total debt (outstanding loans)	million leva	4 116	7 332	7 135	..
Overdue loans	million leva	248	721	1 831	2 628
Mortgage arrears (per cent)		6.02	9.83	25.67	..
Housing investments	million leva	2 146	2 890	2 529	..
GDP	million leva	131 058	195 000	298 934	..
Housing investments as share of GDP (per cent)		1.60	1.50	0.80	..
<b>LOANS TO HOUSEHOLDS</b>					
Number of granted loans		40 180	12 077	9 636	5 557
Amount of granted loans	million leva	346	194	331	240
Average amount of loans	leva	8 609	16 006	34 305	43 241
Amount of outstanding loans	million leva	64	47	32	..
Number of outstanding loans		3 370	2 995	2 194	..
<i>of which:</i>					
old housing loans, granted before 28 January 1991	million leva	..	2 323	1 515	..
Share of old outstanding loans (per cent)		..	78	69	..
Amount of overdue loans	million leva	10	24	53	68
Mortgage arrears (per cent)		..	0.79	2.41	..
Foreclosures (numbers)		..	..	509	783
<b>LOANS TO MUNICIPALITIES AND PUBLIC ENTITIES</b>					
Number of granted loans		..	..	116	53
Amount of granted loans	million leva	635	1 090	582	493
Number of outstanding loans		403	382	391	..
Amount of outstanding loans	million leva	..	4 337	4 941	..
Overdue loans	million leva	238	697	1 780	2 559
Mortgage arrears (per cent)		..	16.07	35.98	..

Source: NSI, SSB, *Annual Report*, 1992, 1993. Expert estimates.

## 2. New credit systems

Cityfund HC has recently introduced a housing saving scheme. It issues home savings bills. Each note is valid tender for the purchase of one square metre of Citycom Standard area. It bears an annual interest of 5 per cent, payable again in housing area at 31 December, and is fully secured with mortgages. The notes are fully transferable. However, this mechanism is not attractive when housing prices do not keep up with inflation.

### D. Affordability of housing 1990-1994

The standard indicators on the ability of the population to bear housing costs are all very unfavourable compared to industrialized countries. Rent affordability is, however, markedly different in the public and private rental sectors. In 1994, the rent level in the public sector was only 3.4 per cent of the private market rent (table 19).

The extremely high values of the indicators above presuppose that the level of the "Excessive housing expenditure" indicator is also high, but this is not the case in Bulgaria. According to the Sample Households Budgets Survey, conducted by NSI over eight years since 1985, average household housing expenditures have not exceeded 10 per cent of average household in-

come. This proportion has changed very slightly in comparison to the huge increase in prices (over 50 times) and the decrease in purchasing power (over three times). The biggest items in housing expenditures are still utility costs. Since 1993, utilities have been charged almost at cost-covering prices. Public rents are, however, kept far below costs. The estimated real cost of 60 leva/m<sup>2</sup>/month is over 36 times higher than the average public-sector rent at 1.65 leva/m<sup>2</sup>/month. This extremely low public-sector rent, with households on average paying 1.3 per cent of their income in rent, also directly influences the standard of the housing stock, as maintenance and repairs cannot be financed through the rents and are therefore not carried out.

Repayment of housing loans is either not an expenditure item, or constitutes a negligible share of household expenses for 90 per cent of all households. For the 10 per cent of households who pay such expenses, 1993 data put this cost at about 27 per cent of household income. The average household expenditure on food, however, now takes up approximately 50 per cent of household income.

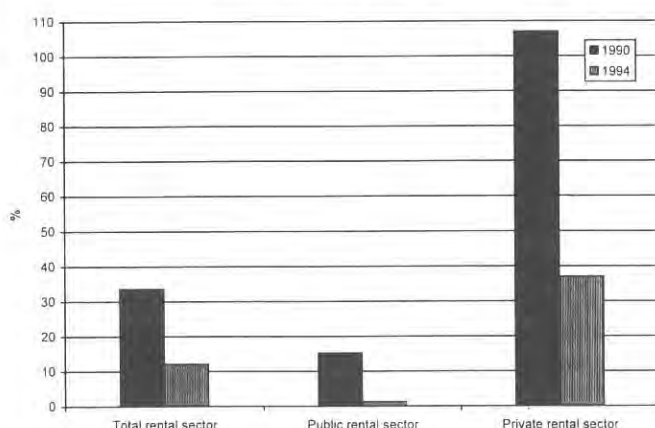
Statistics indicate that the 1992 and 1993 stability in house prices disappeared during 1994. The ratio between house price inflation and general inflation underlines, however, the real reduction in the value of housing assets. All these ratios point to the major forces of inflation in the economy being outside the housing sector.

TABLE 19  
Affordability of housing, 1985-1994

	1985	1990	1992	1993	1994
Household income (leva/year)					
total	6 401	9 735	47 414	69 880	116 754
urban	6 240	9 203	43 547	65 292	105 458
rural	6 708	10 768	54 470	78 428	138 740
Sofia	6 240	9 203	43 547	65 292	105 458
House prices (leva for 75 m <sup>2</sup> unit):					
total	21 000	243 750	397 500	562 500	675 000
urban	21 000	300 000	506 250	637 500	750 000
rural	21 000	37 500	112 500	135 000	150 000
Sofia	21 000	450 000	900 000	975 000	1 350 000
Public sector rent (leva/m <sup>2</sup> /month)	0.19	1.65	1.65	1.65	1.65
Private sector rent (Leva/m <sup>2</sup> /month)	2.0	11.5	33.5	42.5	48.0
Public sector rent/unit/year	171	1 485	1 485	1 485	1 485
Private sector rent/unit/year	1 800	10 380	30 150	38 250	43 200
House price/household income	3.28	25	8.38	8.05	5.8
Public sector rent/household income	-	0.15	-	-	0.012
Private sector rent/household income	-	1.07	-	-	0.37

Sources: NSI, "Household Budgets", sample survey, 1994. NSI, *Statistical Yearbook*, 1986-1993. SSB, *Annual Report*, 1992, 1993. Expert estimates.

FIGURE XIV  
Rent-to-income, 1990-1994<sup>a</sup>



Source: The Indicators Programme, "Central-East European Regional Housing Indicators", Hungarian Metropolitan Research Institute (MRI).

<sup>a</sup> Data based on average rent and household income in each sector and weighted total.

The municipalities and other public bodies are responsible for the majority of outstanding mortgage loans (see table 18 above). The number of private households responsible for overdue loans has, however, risen during transition. In 1993 the mortgage arrears rate for private households was 2.41 per cent. In 1994, 783 private-sector mortgage loans were foreclosed. The reasons for the increase in arrears are assumed to be:

- Price/income index distortion 50 per cent
- Lack of subsidies 30 per cent
- "Bad" loans 15 per cent
- Inefficient claims system 5 per cent

### E. Subsidies and allowance systems

Bulgaria has not, as part of the transition process, introduced any form of coherent system for housing subsidies or housing allowances. There are a few individual subsidy elements at central government level, but these do not belong to any standard type of subsidies, nor can they be considered part of a system based on clearly expressed political goals of a social or economic character.

In 1994, 1.19 per cent of the total State budget was clearly earmarked for housing sector subsidies. These were in effect not subsidies; the Government covered the overdue mortgages for unfinished municipal housing schemes.

There is at present no direct public subsidy or allowance system in the housing sector for households with below-average income. The most significant indirect housing subsidy is the rent level of public-sector rental housing, with rents at 1-2 per cent of household income but real costs to the municipal landlord 30-40 times

higher. This is, however, a general subsidy. It does not correspond to a conscious political decision in terms of volume or target.

As the price of utilities for housing has been raised to cost levels, there is no hidden subsidy in these items of total housing costs.

#### F. Homelessness and social need for housing

There is as yet no official "poverty line" in Bulgaria. Indeed, the establishment of such a threshold would currently be of little help. The current minimum income is a useful guide. It is also a basis for the social assistance programmes. The social and minimum living standards can also be used as guides about absolute impoverishment. Their values are calculated on the basis of a "consumer basket" with certain quantities of goods and services. Over the past four years, the number of people with income below the *minimum social standard* has grown to more than four fifths of the population (88 per cent) and the number of people with income below the *minimum living standard* to two thirds of the population (67 per cent).

The Rent Act and the recently adopted Regulation for the allocation of municipal housing lay down the

eligibility criteria for social housing. The basic criteria include the following restrictions:

- No ownership of any dwelling anywhere in the country, or any other personal assets above a certain value;
- The market rent for an adequate available dwelling must be higher than 30 per cent of the disposable household income;
- Bulgarian citizenship; and
- Having been registered in the specific local area for the last four years.

The local governments are still responsible for maintaining and updating waiting-lists for housing. In 1992 they contained 323,524 households (109,959 in Sofia). After the adoption of a stricter set of eligibility criteria and the updating of the waiting-lists in 1994, this number was drastically reduced. Now no more than 89,000 households could be regarded as officially waiting for social housing.

Homelessness is neither officially acknowledged, nor monitored. Some local governments have taken the initiative to convert abandoned non-residential properties into shelters for homeless people, relying entirely on their own resources and sponsorship from local business. Homeless families, who have special needs, are usually put up in vacant public housing.

#### Summary of core issues

The major macroeconomic indicators highlight the potential contribution that the housing and construction sectors could make to economic growth in Bulgaria. High prices for new housing and the extremely low new investment in housing have accelerated the decline in the construction industry during the transition period.

The major reason behind the collapse in new private-sector investment in housing is the large and widening gap between household income and general inflation which has developed during the transition period. A further deterrent to investment in housing has been the decrease in the real value of housing.

The lack of a functioning system for mortgage loans is worsening the situation for private households and other investors in housing. Due to the present level of inflation the available system for housing credits is inaccessible for the vast majority of Bulgarian households. The newly introduced system of home savings bills is not attractive during this phase of transition when the real value of housing is decreasing.

Although most indicators on the affordability of housing in Bulgaria have worsened significantly during the transition period, the average Bulgarian household expenditure on housing does not exceed 10-15 per cent of household income. The major part of this expenditure is the cost of utilities, which has been priced at cost level since 1993. Expenditure on food now consumes about 50 per cent of average household income.

The rent level in public-sector housing stands at about 1.3 per cent of average household income. This politically decided, extremely low rent rules out any expenditure on urgently needed maintenance and repair of the housing stock. Putting off such work also threatens the future use of those parts of the housing stock that most badly need repairing.

The present rent policy in public housing does not have a meaningful political objective with regard to social targeting. This type of general indirect housing subsidy is inefficient from a political, social and economic point of view.

The absence of a clearly defined housing allowance system is probably the single most important factor hampering a more constructive and socially just rental policy in Bulgarian housing. Such a policy of differentiated rents based on an allowance system should be introduced urgently.

The present Bulgarian policy of not explicitly recognizing the existence of homelessness and the need for social housing is contrary to the acceptance of housing as an important contributor to the quality of life. Data on the scale of these problems and policies to solve them are urgently needed.

## V. THE LEGAL FRAMEWORK

### A. General

The existence of a well-functioning legal and institutional structure is a prerequisite for a market economy with a social policy component.

The most fundamental changes needed in the legal system of economies in transition, however, concern the ordering of economic life. Such changes include the introduction of commercial law (*lex mercatoria*), a system of legal persons (shareholding enterprises, etc.), bankruptcy law and debt collection, labour law, a system of registration and ownership of land and real property, credit law, etc.

For the housing sector the cornerstones are:

(a) Basic constitutional rights of citizens and foreigners to own and inherit land and buildings, the freedom of contract and the right to privacy;

(b) The division of power and competence between the central and the local level (municipalities) and an independent judiciary linked with the individual right of recourse to the courts;

(c) Law on personal and real property;

(d) (Contract) law on rental housing (public and private);

(e) Law on condominiums and on housing cooperatives;

(f) Law on housing financing and credits;

(g) Law on housing subsidies; and

(h) Procedural law as a means of implementing given legal provisions.

### B. Legal development in Bulgaria since the start of the transformation in 1989

The first freely elected Government gave priority to an economic reform policy stressing privatization, tax reform, fighting inflation, conversion of debts and keeping up with IMF requirements. This had led to major commercial law reforms. Besides the Constitution, the law on the Constitutional Court, the Law on the confiscation of property of communist organizations, the Law on local self-government and local administration, the Environmental Law and other important economy-related laws have been enacted. In addition, a number of acts related to the restitution of urban and rural property have been enacted. The most important ones are the Act on property and use of agricultural land of 22 February 1991 (D.V. 1991, No. 17), regulating the restitution

of agricultural land to the former owners, the dissolution of the cooperatives, and the restitution of urban properties (i.e. non-agricultural and non-industrial land). These estates are returned to their former owners (or their heirs) by law. Acquisition in good faith is protected. Compensation will be regulated, but no legislation has yet been approved.

Although economic issues, restitution and privatization have received adequate legal attention, this is not the case for the housing sector. Up until now no housing sector related law has been enacted, nor have bills passed Parliament. Housing sector related laws are not high on the political agenda.

Because of the lack of new housing laws or of major amendments to existing housing laws, the Council of Ministers—not Parliament—uses the constitutional regulation of article 114, which provides for sublegislative normative acts of the Council of Ministers, thus substituting parliamentary approved legislation.

Due to the traditional high percentage of privately owned dwellings (90-92 per cent), the question of privatization of publicly owned dwellings has not been a major focus of interest.

Drastic price increases both for rental (residential and commercial) stock and for the sale of housing have taken place. The unrestricted transfer of private flats and the unsanctioned conversion of dwelling stock into commercial rental property have already led to a very unstable and highly speculative real estate market.

### C. Constitutional framework and constitutional rights

According to the Constitution of 13 July 1991, Bulgaria is defined as a democratic and parliamentary republic bound by the rule of law. Basic principles are proclaimed as follows: sovereignty of the citizens, democracy, political pluralism, humanism, legality and separation of powers, i.e. legislative, executive and judiciary. Economic freedom (art. 19 I and III) and private property (art. 17 III) as well as equal treatment of all citizens and legal entities, protection against monopolies and unfair competition (art. 19 II), equal treatment of foreigners (art. 26 II) are guaranteed.

The Constitution provides for a strong Constitutional Court, which can check the constitutional conformity of post-constitutional legislation (art. 149).

The local authorities should play a prominent role. The legal relations between territorially divided administrative units, municipalities and regions are set out in chapter 7 of the Constitution and in the Act on local self-government and local administration.

According to article 136 of the Constitution and article 5 of the Act on local self-government and local administration, "the municipality is a principal administrative territorial unit where local self-government is exercised".

According to article 136 of the Constitution and article 14 of the Act on local self-government and local administration, "the municipality is a corporation and can hold property rights and dispose of an autonomous municipal budget". This creates the possibility for the municipality to be a subject of civil law (economic, commercial, etc.). It can participate in economic activity independently or through its enterprises, by using its assets.

Municipal ownership is regulated by the Constitution and according to its article 17, "... the regime of State and municipal sites is determined by law ...", thus separating State from municipal ownership.

The right of the municipalities to own property is laid down in article 140 of the Constitution. The same article states that "the municipality has the right to own property, which it has to use for the good of the territorial community". Municipal ownership is further developed in article 22 of the Act on local self-government and local administration, which states that "the municipal council makes decisions on acquisition, management and disposal of municipal property ...". The municipal council adopts regulations on issues of local importance relating to public utilities, public order, the use of municipal property, and environmental protection.

In the Act on local self-government and local administration, article 6 of the Property Act has been changed. This amendment lays down the principle that all assets on the territory of the municipality which are not private property, exclusively State property or acquired by the State are municipal property. The law fixes the ways for acquiring municipal property, namely:

- (i) Ceded by law as property of municipalities, and included in the authorized capital of municipal companies;
- (ii) Acquired against funds from the municipal budget, or out of an extra-budgetary account of the municipality;
- (iii) Built by the voluntary labour and contributions of the community;
- (iv) Acquired through loans, obtained and redeemed by the municipality;
- (v) Bestowed or bequeathed to the municipal council or to the individual settlements;
- (vi) Restored through restitution;
- (vii) Ceded gratuitously by the State.

Within this general legal framework regulating local authority activity, the freedom of municipalities to for-

mulate and implement policy independently in the housing sector is severely limited by central government laws and regulations.

The Bulgarian Constitution guarantees the right to own and inherit land. However, this constitutional right applies only to Bulgarian citizens. Private property is inviolable and expropriation is permitted only for important reasons linked to State and municipal needs. However, the underground resources, the coastline, the national road network, the waters, forests, parks of national importance and protected natural and archaeological areas are exclusive State property and cannot be transferred into private ownership. In other cases, however, State and municipal land can be transferred to private persons. However, since August 1990, Parliament has stopped all sales of State or municipal property, i.e. for the time being only privately owned property can change hands.

Bulgaria has a long tradition (also under communism) of permitting the private ownership of land related to privately owned homes in one- or two-family houses. In the case of multi-family housing, however, the ownership of the land remains in public hands, even when the building is privately owned or privatized.

According to article 21 II of the Constitution, article 2 of the Law on land reform for agricultural land, article 22 I of the Constitution and article 5 I of the Law on investment for all non-agricultural land, foreigners or foreign legal bodies cannot acquire real property unless it has been inherited. However, in this case they have to transfer the acquired property. No real estate can, however, be transferred by means of a will or a donation. Even in the case of legal succession, the foreign legal person has to transfer the (inherited) property either to Bulgarian citizens, the State, municipalities or to legal bodies.

The Law on investment mentions neither deadlines nor sanctions in the case of transfer of non-agricultural land, but the Law on land reform is very precise. Its article 3 IV requires the transfer to take place within three years after succession. These rather complicated regulations have been softened by some constitutional court decisions as well as by the Law on investment, according to which a legal person registered in Bulgaria is regarded as a Bulgarian company regardless of the share of foreign investment. Natural persons with permanent residence in Bulgaria are treated as citizens regardless of their nationality. This discrepancy between constitutional regulations and subconstitutional laws might, however, be disadvantageous in the long run. Land acquisition by foreigners with the help of the above-mentioned laws might be challenged and declared void by the Constitutional Court. Consequently, there is a need for stringent constitutional regulations and ordinary laws.

Nevertheless, according to article 22 II of the Constitution and article 5 I of the Law on investment, foreigners, both natural and legal persons, can, under conditions provided for by law (Law on investment, Property Law), acquire the right to use land, to build on it and other

such rights short of ownership. Particular restrictions apply to the acquisition of dwellings by foreigners.

## D. Ownership and tenure

### 1. Ownership of public land and buildings

Under the Bulgarian Constitution, the ownership of land can be private or public. Public ownership includes State or municipal ownership. Certain kinds of property are exclusively State property, as mentioned above. The State and the municipalities can as a matter of course acquire property by way of purchase from private parties or from each other.

It appears that the legislation defining real estate as State or municipal property is still under preparation, which constitutes an impediment also to the transfer of State property to the municipalities and vice versa.

The relationship between the State and the municipalities concerning the management and ownership of the dwelling stock is complicated and subject to ongoing legal reform. Several acts cover this area (ownership law, ordinance on State real property, rent relations law, etc.). Both the State and the municipalities own a proportion of the rental housing (whereas departments, State enterprises and other public agencies own and rent other parts).

In general, the State and the municipalities are authorized to sell land to Bulgarian individuals, although it appears that it may today be unclear in what body such authority is vested. (See in particular the Ordinance on State real property.) In some cases, however, the State and the municipalities are required to transfer land, viz. according to the Act on solution of housing problems of persons with long-term housing savings deposits (the so-called Old Savers Act), who have a right to acquire a parcel of land at a fixed price. The rules on fixed prices in this Act apply also to other transfers of land, and constitute the minimum for which public land may be sold.<sup>3</sup>

After the Act on local self-government and local administration came into force in 1991, much of the State's real property (including departmental dwellings or rental dwellings for social purposes) was consigned to the municipalities. This includes the right to manage the properties. The consignment takes place according to an order or an agreement between the relevant authorities. The right to manage State property is given free of charge and can also be given to cooperatives or other public organizations. It appears, however, that this does not include a right to sell the property.

Whenever an enterprise or a cooperative is to build on publicly owned land, the land is not transferred, but the enterprise is given "building rights", according to the Property Law, for which a price is charged. It is, how-

ever, clear that this is not a building permit issued according to planning legislation, but that it is a right under private law to erect a building on that land. The payment is for a right to use. It is, however, not entirely clear whether this is a permanent right, or whether it has to be renewed. Also, it appears unclear whether additional charges can be made. Obviously, the "building right" can in theory function as a semi-ownership right, i.e. as a *superficial* right.<sup>4</sup> If this is the case, it should be spelt out, so that these rights can be made subject to registration and mortgages much in the same way as ownership. However, the Property Law does not require a notarial deed; a simple written contract is sufficient (art. 18 of the Property Law).

### 2. Rules on rental housing

As already mentioned, the rental sector is quite small in Bulgaria. There are regulations on public rental housing, but no particular regulation at all concerning private rentals.

The information available indicates that in *public rental housing* it is doubtful whether a contractual situation exists at all. The situation is thus similar to the old socialist regime notion of housing as a status relationship rather than as a contract relationship. Thus, the Act on rent relationships regulates the allocation of State, municipal, cooperative and public organizations' housing. Further rules are to be found in Decree No. 246/1993 with a regulation on the allocation of municipal housing, which defines the general conditions and the order according to which the allocation of, and renting and eviction from, municipal housing are carried out.

A basic requirement contained in the Act on rent relationships is that any person or family applying for public housing must not own or possess another dwelling in which they can live. If they later acquire such a dwelling, they will lose the right to their public dwelling. Furthermore, the Act sets out the order of priority between various groups of needy persons who are eligible for public housing. The rules on municipal rental dwellings are even stricter.

Public rental housing is subject to rent control. In Bulgaria, as is the case in many other central and east European countries, the rent excludes utility costs (heating, electrical power, hot and cold water, in some cases also waste disposal, etc.).

In *public housing*, according to the Act on rent relationships, the tenant enjoys tenancy protection as long as he is eligible. His lease may however be terminated and he may be evicted in the following cases:

- (i) If the rent is more than three months overdue or when payment has been systematically delayed;
- (ii) If new construction is carried out affecting the occupied premises;

<sup>3</sup> These are the sale and barter of State, municipal and departmental real estate pursuant to the Ordinance on State Real Property.

<sup>4</sup> Similar rights, e.g. site-leasehold rights exist in several countries, such as the Netherlands, Germany and Sweden.

- (iii) In case of severe moral misconduct of the tenant;
- (iv) If one of the co-tenants gets married. The tenancy is terminated for the other co-tenant;
- (v) If the term of the allocation of a departmental dwelling expires, i.e. in case of tied accommodation—linked to an employment contract;
- (vi) If the tenant or a member of his family acquires another permanent dwelling suitable for the family.

The conditions for public housing must be seen in relation to the extremely small size of that sector. Public housing is desperately needed in order to provide housing for the needy, those who have suffered from natural disasters, or whose former dwellings have been made subject to restitution, or those who have severe social or health problems. The eligibility of the tenants is assessed annually. Those who are no longer eligible for public housing, e.g. because they have found another dwelling, will have to leave and the flat is allocated to a new applicant.

In *private rental housing*, on the other hand, no special rules apply other than those that apply to commercial tenancies. The lease can be made freely for a maximum period of 10 years. Unless the lease provides otherwise, the period of notice is one month for both parties. Under these rules the tenant is responsible for the wear and tear of the flat, i.e. he has to repair it himself. Other repairs are carried out by the landlord. There is no tenancy protection, although it may of course be stipulated in the lease. If the property is transferred, the new owner is bound by the tenancy agreement, provided the contract of sale so stipulates.

One of the most common examples of private rent concerns the letting of a condominium flat. In such a case the tenant is required to comply with the conditions applicable to that property, or he may be evicted by the management of the condominium (see below).

### 3. Condominium ownership and administration

Bulgaria, like many other countries in central and eastern Europe, has a long tradition of public owners "selling" flats to sitting tenants. In effect this did not mean much, except that the "new owner" no longer paid the (very low, regulated) rent and that he had a right to transfer his flat to family members and relatives by way of sale or inheritance. He had no influence on the running of the enterprise and he had to pay for amenities as any other tenant. The legal basis for this is the Condominium Law, which is part of the Property Law. This Law was enacted in 1971 and amended in 1990. As already mentioned, the creation and construction of housing were supported by means of State-subsidized local authority funding. To construct new dwellings, cooperatives were established and dissolved after the completion of the construction work. The members of the former cooperative had to conclude a notarial contract to receive ownership of the flat, but without ownership rights to the land.

The Condominium Law only very basically defines individual and common property, it does not define the community of owners for instance, but it does include a number of organizational questions and instructions on the administration. However, these regulations seem to be vague, while regulations on State interference are still very numerous.

As a consequence of the sale of municipal housing stock, private condominiums are faced with the *problem of mixed ownership* forms, i.e. having private owners together with municipal owners of rental flats in one building. Experience shows that such mixed ownership forms cause severe organizational and financial problems and should be replaced by single ownership forms as soon as possible.

## E. Housing finance and credit systems

There are laudable projects for the introduction of a modern system for the registration of real property and mortgages based on a cadastral system.<sup>5</sup> In 1994 the Council of Ministers adopted the concept of land registration system which will provide for modern practices in this respect. The registration will have a substantive effect, i.e. deeds which are not registered will not have full legal effect, and it will be public.

There is an old system for the registration of mortgages on real property. A contract for a loan is recorded in a special mortgage book. In accordance with standard procedures applicable in most countries, the mortgage gives a right to foreclose if the debt is not paid. The mortgage holder may request the property to be sold to satisfy his claim. A mortgage holder with a better claim will be paid before one who has requested the property to be sold, whereas those with an inferior claim will lose their security if the proceeds of the sale are not sufficient to satisfy their claims as well. The sale of the property means that all mortgages are ended, unless those mortgage holders who have a better claim agree with the buyer that the mortgage is to remain unchanged.

## F. Procedural questions and legal infrastructure

The Constitution provides for the separation of powers and an independent judiciary. The judicial bodies are: the Constitutional Court, the Supreme Court of Appeal, the Supreme Administrative Court, and regional and district courts of justice, courts of appeal and courts martial. Since coming into existence the Constitutional Court has gained considerable power and influence and seems to have a major impact on legal interpretation.

Although the Constitution provides for the possibility of challenging the constitutionality of laws, there is no individual right to enforce constitutional rights or to challenge infringements of these rights.

<sup>5</sup> See: "A review of land registration in Bulgaria—options and process", ILIS—EU PHARE Land Reform Project, Sofia, 1994.



Civil substantive law and procedure law provide for courts resolving lawsuits on tenancy and condominium (enforcement in case of non-payment and eviction of tenants). The situation in the private housing sector, i.e. uncontrolled rents and leases for a limited period, leaves little scope for lawsuits to be brought to court. Evictions do take place, especially in the private sector. Local authorities do not exercise this right.

Land registration and cadastral systems are rudimentary. The cadastral system does not even cover the whole country and the registration of mortgages is haphazard.

Often it is not clear which of the dwellings are mortgaged. The transfer of property is not completely registered, partly because the housing books are kept with a great number of notaries, who are not very well coordinated. Those inadequacies have led to the recent moves by the Council of Ministers described in section E.

Although there is a lot of State intervention in the administration of privately owned flats by means of the Condominium Law, there is hardly any sanctioning of the conversion of dwellings into offices, which is illegal and has become a major problem.

### Summary of core issues

The division of roles and responsibilities in the housing sector between the State and the municipalities is not regulated satisfactorily. Although the State has relinquished most of its financial responsibilities, it still heavily regulates and interferes with municipal tasks, e.g. rent setting, allocation to tenants, land use, etc.

Bulgaria does not have a history of settled land tenure and practical implementation of real property law which would form a secure base for, and facilitate, land registration. Up to now only a rudimentary form of deeds registration for private land transactions has been developed. There is an urgent need for a comprehensive system of real property registration, to secure title, to provide security for loans, to facilitate the development of the land and real property market, and structure urban development.

Ownership rights, i.e. the right to sell or acquire land or a similar right such as a hereditary building right, are unduly limited. Local authorities do not have the freedom to sell their properties, nor do foreigners—be they individuals or companies—have the right to acquire property. Such restrictions form another obstacle to investment in the housing sector.

In Bulgaria the ownership of dwellings differs in several respects from that in other countries in transition. The most prominent difference is the traditionally high proportion of privately owned flats and houses. However, this does not imply privately organized and fully paid management, maintenance, repair and modernization of the private dwellings, and raises particular legal issues.

Regulations on condominium formation, management and financing are inadequate. The existing property laws lack clear definitions of individual and common property as well as of rights and duties of the community of flat owners, although they provide for much unnecessary State interference.

The “mixed ownership form”, i.e. municipal and private ownership in one and the same condominium, creates psychological, financial and administrative problems.

The rental sector (private and public)—though small—lacks proper legislation, for instance on tenants’ protection, as well as relaxed rent control and a housing allowance scheme.

## VI. INSTITUTIONAL FRAMEWORK AND DECISION-MAKING PROCESSES

### A. General

The transition period in Bulgaria has, over the last six years, caused a great number of changes throughout the housing sector, including in its organizational and institutional framework. The new rules and requirements imposed on the way to a market economy and the achievement of a level of stability have underlined the need to reorganize the processes of construction, provision, redistribution and management of the dwelling stock.

During this six-year period Bulgaria has, however, gone through six Governments, each with its own political programmes for overcoming the economic and social crisis in the country.

Each of these Governments has had its own approach to the institutional framework. Some relied on the existing ministries, institutes and administrative structures, dismantling some and establishing others. The main aim of all these changes has been to bring the Bulgarian institutions closer to the European models, as part of the general process towards European integration. It is still too early to evaluate which of these changes have had the expected result, which have been really effective or delayed the development of the housing sector and the solution of the housing problems in Bulgaria. Moreover, all these institutional changes, combined with the execution of new laws, especially those concerned with the restitution of urban property, have resulted in problems with regard to the gathering of statistical data. This is the main reason for the lack of information on the processes actually taking place in the housing sector, such as the situation of the housing market, the number of homeless people, the provision of municipal land and municipal dwellings for the poor.

The continual and ongoing changes in the institutional framework during the transition period have, in conclusion, undermined the possibility of a coherent and continuous housing policy.

### B. Central government institutions

The Ministry of Regional Development and Construction is responsible for formulating and executing national housing policy (fig. XV). It defines and puts into practice the national housing policy and related programmes through its Department of Housing. The Department's main functions are:

- (i) To create an adequate legal and economic framework for the development of the housing market;
- (ii) To introduce a system of financial and credit mechanisms and subsidies for people with restricted financial means on the basis of a national compensation fund;
- (iii) To secure preferential conditions for attracting capital to the housing sector, including foreign investments;
- (iv) To provide financial aid to municipalities for the construction of municipal rental stock;
- (v) To develop and introduce a system of special tax, credit and rental mechanisms for stimulating the reconstruction and modernization of the existing housing stock and its effective management;
- (vi) To facilitate the decentralization and privatization of State construction companies, providing preferential conditions for housing construction on municipal land.

It also draws up a strategy to implement the current housing policy, including:

- Principles and social and technical parameters for the construction of social housing;
- Improving the legal basis of the Bulgarian housing policy either by introducing changes in the existing legislation or by drafting new regulations and legal acts on:
  1. housing finance and credits;
  2. price formation;
  3. taxation;
  4. rental relations;
  5. land provision for housing construction;
  6. distribution and sale of dwellings;
- Evaluation and proposals for an effective system of management, maintenance and modernization of the housing stock;
- Improving the quality of design for housing by technical rules and regulations;
- Creation of databases for system analysis of the processes in the housing sector;
- Organization of courses and workshops to provide professional help and assistance to local structures throughout the country as well as training of professionals in the housing sector.

In the execution of its main tasks and functions the Department of Housing maintains close and constant links with the other divisions of the Ministry, such as:

- (i) The Regional Development Department with which it draws up the regional housing policies, taking into consideration the characteristics of the regions;
- (ii) The Department of Administrative Structures and Local Self-Government with which it supports and coordinates the creation of new local structures and helps municipalities with severe housing problems;
- (iii) The Territorial Development Department with which it works on the process of elaborating and changing the legislative basis of the housing policy.

In the process of elaborating the regulative and legislative basis of the national housing policy, the Department of Housing works closely with all the ministries and organizations listed in annex II below. It is general practice for each document passed by the Council of Ministers of the Parliament to be agreed with these ministries and organizations.

### C. Local government institutions and responsibilities

#### 1. Responsibility for social housing provision

The social housing obligation at local authority level consists in fulfilling the *Regulation for the allocation of social dwellings*, issued by the Council of Ministers. It defines the responsibilities of the municipalities in these matters, the distribution, rental conditions, etc. related to housing owned by them.

Municipalities are obliged to draw up and continually update lists of citizens who satisfy the requirements for social housing. On the basis of these lists, specially appointed housing commissions carry out stipulated standard procedures to prepare lists for the allocation of municipal housing. These allocations are the basis for issuing accommodation orders and leases between municipalities and tenants. The level of rents is fixed by the Council of Ministers. Municipalities cannot rent their housing stock by any other locally decided procedure or at any other rent.

#### 2. Supply and development of land for housing

One way in which the municipality can provide land for housing development to private developers is on the grounds of the Old Savers Act. The final decision in this case is made by the municipal council.

#### 3. Housing construction

Housing construction by regional and municipal authorities is governed by:

- Legislation, which does not allow the municipalities or municipal companies to make a profit from housing construction;
- The responsibilities of the municipalities to allocate the flats according to nationally set allocation rules and nationally fixed rent levels;
- The financial resources within limited municipal budgets.

#### 4. Housing ownership and management of housing stock

Municipality-owned housing stock is managed by municipal companies (BKS). These are created and act according to the regulations of the Council of Ministers. These companies manage and maintain the municipal housing stock and collect the rent from tenants. There are 24 such companies in Sofia. The gap between the level of rents and the necessary resources for maintenance has led to a transfer of virtually all these activities directly to the municipal administration.

#### 5. Rent policies

The level of rents for all public housing is fixed nationally (see section 1 above). This severely limits the opportunities for the municipalities to develop their own rent policies.

#### 6. Housing subsidies and housing allowances

No housing subsidies or housing allowances are provided at regional or municipal level. The difference between State-fixed rent and market rent is a form of hidden subsidy, but this is a subsidy for the tenants, not the municipalities, as investors. In practice, this is yet another limit to the investment possibilities of the municipalities.

### D. The greater municipality of Sofia

According to the Act on local self-government and local administration, the Greater Municipality of Sofia is a specific administrative and territorial unit, combining the functions of a municipality and a region and carrying out State policy for the development of Bulgaria's capital.

The local authority is represented by Sofia Municipal Council, on the one hand, and by the Mayor of the Municipality and his administration on the other (fig. XVI). Sofia Municipal Council is a body of local self-government elected for a period of four years by the population of the municipality. There are 101 municipal councillors representing the political parties.

Sofia Municipal Council defines the municipal policy for building and development, solves local problems connected with the economy, protection of environment, health, social, educational, cultural and public services,

activities, territorial structure, municipal property, traffic safety and public order. The Municipal Council passes regulations, decrees and instructions on matters within its jurisdiction.

Its activities are managed by a Leader of the Council, who is elected by secret ballot among the municipal councillors. Only the Leader occupies a salaried position. The municipal councillors are employed elsewhere, but for the time spent in council meetings they are paid by the municipal budget. Decisions are made by simple majority with open ballot. Exceptionally there can be a secret ballot. The decisions made by the councillors are made public.

Sofia Municipal Council elects standing and temporary commissions, which can also include experts who are not councillors. It has already set up 13 standing commissions:

- (i) Commission on finance and budget;
- (ii) Commission on self-government, normative regulations and public order;
- (iii) Commission on health, social policy and sports;
- (iv) Commission on science and education;
- (v) Commission on culture and religion;
- (vi) Commission on investments and economic policy;
- (vii) Commission on municipal companies;
- (viii) Commission on transport and traffic safety;
- (ix) Commission on urbanization and engineering infrastructure;
- (x) Commission on architecture and city planning;
- (xi) Commission on environmental protection;
- (xii) Commission on problems and development of agricultural districts;
- (xiii) Commission on requests, claims and proposals by citizens.

Each commission is managed by a chairperson, a deputy-chairperson and a secretary, who are elected. Temporary commissions at the Municipal Council are formed to study specific cases and make decisions on them if so empowered.

There is at present no standing or temporary commission on housing policy. In the Greater Municipality of Sofia, responsibility for housing matters lies with:

(a) The Mayor. He manages all executive activity of the Sofia Municipality, as stipulated by law and within the authority given to him by the Sofia Municipal Council;

(b) *The municipal property, housing stock and restitution department* (fig. XVII). It is responsible for acquiring, managing and maintaining the real estate which is municipal property (documentation, accountancy and control) as well as for managing State-owned

real estate in Sofia, which is regulated by normative acts. It controls the distribution of the municipal housing stock, which must conform with the law. It gives information and legal advice in connection with restitution.

The Sofia Municipal Privatization Agency organizes, carries out and controls the privatization of municipal enterprises and activities.

The Mayor of the Greater Municipality of Sofia is also elected directly by the population of Sofia for a period of four years. The Mayor has the most important individual position. He is a representative of the executive authorities. His functions include:

- (i) Governing all executive activity of the Municipality;
- (ii) Directing and coordinating the activity of the specialized bodies;
- (iii) Safeguarding public order;
- (iv) Applying the municipal budget;
- (v) Carrying out long-term programmes;
- (vi) Carrying out the decisions of the Municipal Council;
- (vii) Carrying out the tasks connected with laws, the President's and the Council of Ministers' acts;
- (viii) Liaising with political parties, public organizations and movements as well as other bodies of local self-government in the country and abroad.

The Mayor takes part in the work of the Sofia Municipal Council and has a casting vote. As a representative of the executive power, the Mayor carries out his functions through the municipal administration.

To make the administration of the Greater Municipality of Sofia more efficient, its territory is divided into 24 territorial municipal administrations, headed by district mayors. The main purpose of the territorial municipal administrations is to solve local, everyday problems in connection with administrative services, urbanization and sanitation, for instance.

Although the municipal administration is divided into these 24 separate units, part of the municipal administration is concentrated in the Greater Municipality of Sofia itself for coordination and control.

Following a proposal by the Mayor, Sofia Municipal Council elects deputy-mayors, who are responsible for the operative management and control through the respective departments. The Mayor appoints a secretary who organizes the municipal administration and its activities. Urbanization and architecture in the municipality are the responsibility of the Chief Architect of Sofia, who is also appointed by the Mayor.

The legal relations between the municipality as employer and the employees in the municipal administration are regulated by the Labour Code, which applies to the whole country.

FIGURE XV  
The Ministry of Regional Development and Construction—Organizational chart

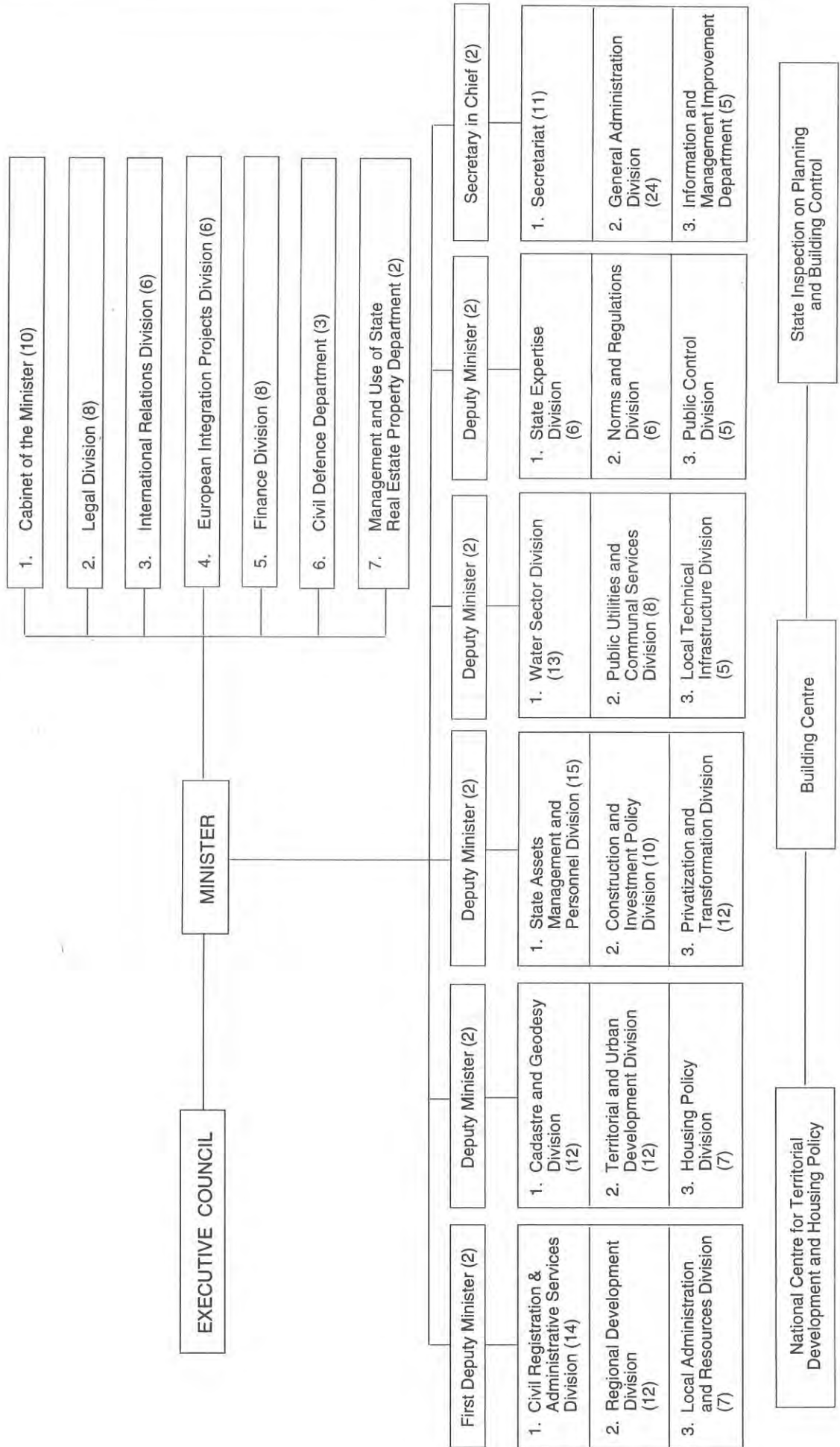


FIGURE XVI  
The Greater Municipality of Sofia—Administrative structure

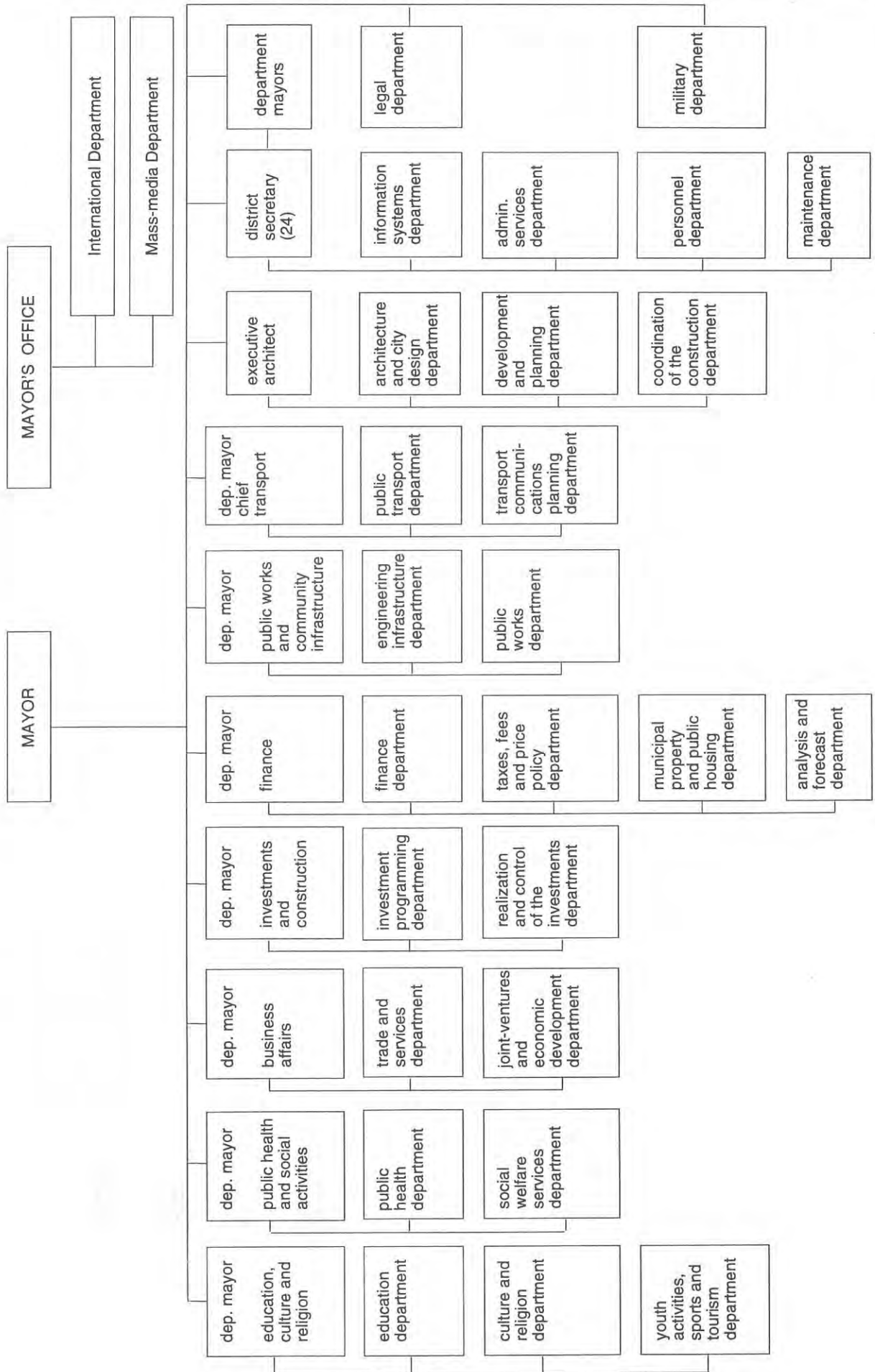
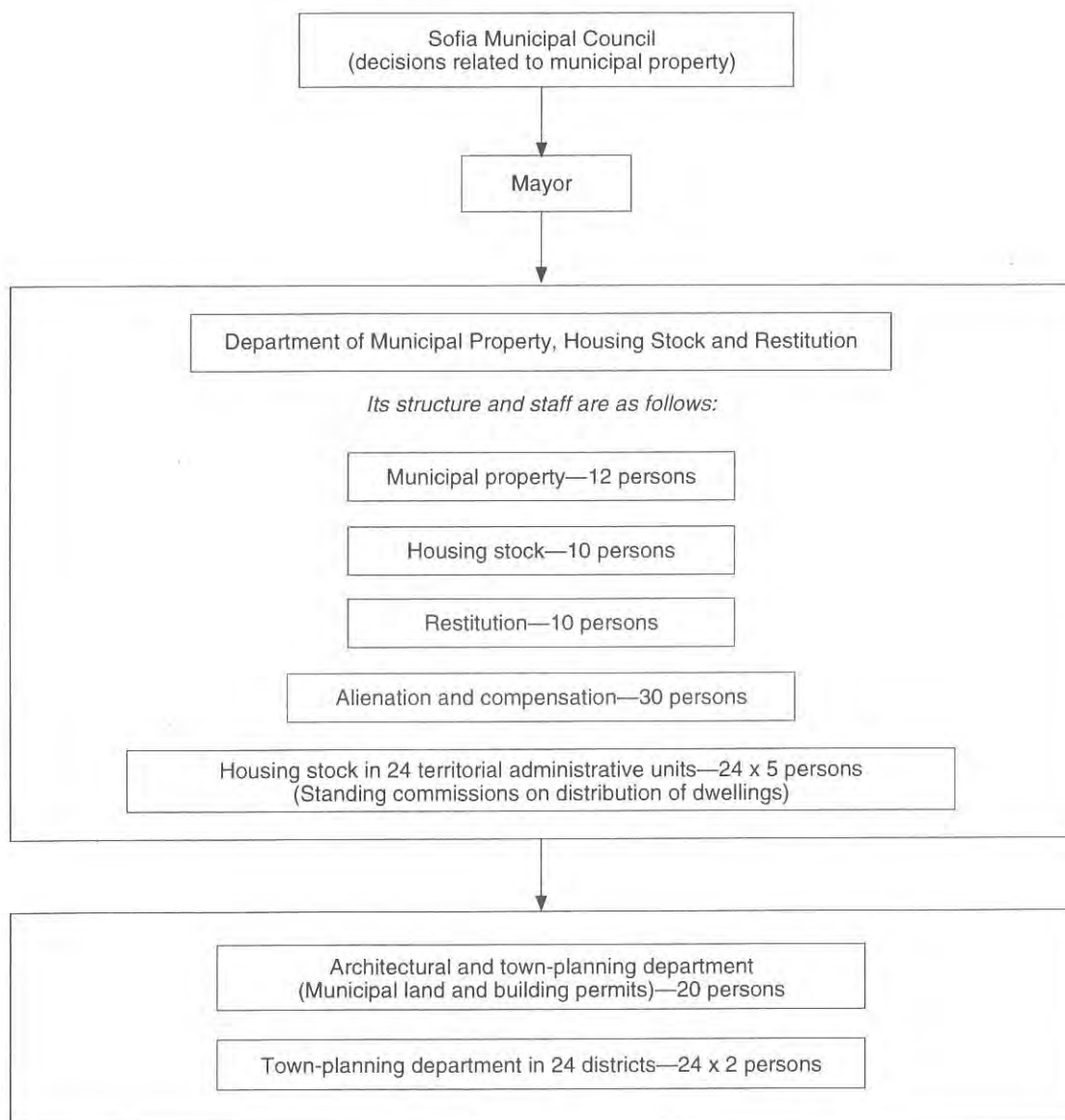


FIGURE XVII

## Sofia Local Authority/Administrative structure for housing



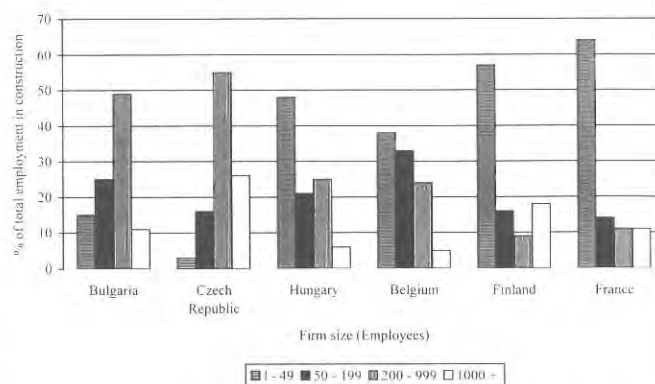
## E. Owners and tenants associations

Bulgaria has no organized structure for these groups to influence the housing sector. Moreover, there are no housing cooperatives, which in other countries have traditionally exerted a strong influence on the housing sector.

## F. Structure of the building industry

Due to massive State intervention in the production of goods and services, Bulgaria's building industry was dominated by large, State-owned enterprises before the transition period, as was the building industry in most other centrally planned economies. In 1980, there were a total of 47 building companies, most of them with more than a thousand employees. The companies operated as

FIGURE XVIII

Structure of the building industry in European countries  
(share of employment by firm size, 1992)

Source: Annual Bulletin of Housing and Building Statistics for Europe and North America, 1995, UN/ECE.

TABLE 20

**Output of the construction materials industry**  
(in million leva/million dollars)

	1990	1991	1992	1993	1994
Output	1,986/699	4,773/248	6,181/265	5,795/210	8,223/225
Index	100	41.9	51.2	49.1	55.5

Source: Statistical Yearbook, 1995, NSI.

TABLE 21

**Building and construction industry output by sector**  
(in million leva/million dollars)

	1990	1991	1992	1993	1994 <sup>a</sup>
Public sector	6,234/2,195	13,435/700	18,475/792	21,680/786	
Private sector	43/15	61/3	118/5	150/6	
Cooperative	605/213	2,383/124	5,833/250	9,570/347	
Index	100	40.7	41.4	36	30
Total	6,883/2,424	15,879/827	24,426/1,046	31,400/1,138	23,500/830

Source: Statistical Yearbook, 1995, NSI.

<sup>a</sup> Estimates.

TABLE 22

**Output of basic products in the construction materials industry**

	Unit	1990	1991	1992	1993	1994
Steel	1000 tons				1,941	
Bricks	1000 units	959,000	646,000	633,000	584,864	461,379
Cement	1000 tons	4,170	2,374	2,132	2,006	1,454
Doors and windows	1000 sq metres				848	605
Wall tiles	1000 units				315,656	245,992
Roof tiles	1000 units	39,000	31,000	25,000	22,000	16,493
Lime	1000 tons	1,557	1,034	729		464
2 mm sheet glass	1000 sq metres				7,874	7,685
Prefabricated concrete	1000 cu metres	2,086	905	841	151	
Waterproof material	million sq metres	9.9	6.1	3.6	2.2	

Source: Statistical Yearbook, 1995, NSI.

TABLE 23

**Gross building and construction industry product and its share of GDP**  
(in million leva/million dollars)

	1990	1991	1992	1993	1994
GDP	45,901/ 16,161	131,058/ 14,270	195,000/ 13,457	286,134/ 13,457	12,800
B & C output	3,159/ 1,112	5,831/ 635	10,065/ 695	13,705/ 617	550
GDP growth rate	-9.1	-11.7	-5.7	-4.2	-0.7
B & C growth rate	..	-4.3	9.4	-11.2	-11.0
B & C share of GDP, per cent	6.9	4.4	5.2	4.8	4.3

Source: Statistical Yearbook, 1995, NSI.



monopolies dominating housing supply. The supply system was driven by production targets, based on floor space indicators with little attention to quality or user satisfaction.

In 1989, Bulgaria initiated a number of reforms to restructure the building industry. Considerable success has been achieved in promoting Bulgaria's small building companies. Between 1991 and 1992 the number of building

firms with fewer than 50 employees increased from 4 to over 2,000 (State enterprises, private firms and cooperatives). The number of firms employing over 1,000 workers declined during this period from 23 to 14. However, small- and medium-sized firms are finding it difficult to procure building materials, and are confronted with conflicting regulations, distorting economic relations and hindering building industry reforms.

### Summary of core issues

Any national housing policy must have a consistent and reasonably stable basis. A precondition to achieve this is the existence of a clearly structured institutional framework, and a clear distribution of responsibilities within this framework.

The continuous changes imposed on the institutional framework influencing the housing sector by successive governments during the transition period have not been conducive to stability.

It seems paradoxical that during the transition period the State has relinquished most practical and financial responsibilities, yet has maintained an extremely centralized decision-making and regulation policy on all major aspects of housing which are the responsibility of local governments.

This paradox is particularly obvious and harmful for public sector housing. The policy has also contributed to the very weak or non-existent political and administrative structures for formulating and carrying out housing policy at local authority level. This is even the case for the capital, Sofia.

The lack of formal structures and real responsibilities for housing at local level, with no freedom to formulate or execute local housing policies, means that there are no coherent or consistent local proposals for changes in the central policy. This lack of flow of information and practical proposals within the public sector from the levels actually experiencing the practical problems to the central, regulating level, is not conducive to practical, viable housing policy formulation or execution.

The present central government institutions and processes working within the housing sector seem adequate for the tasks ahead. The major State priority now should be to propose an overall strategic housing policy, stating the Government's main goals within the housing sector for the short and medium term.

As indicated above, the lack of political and administrative structures and processes within the housing sector at local authority level is seen as a fundamental weakness of the Bulgarian housing sector.

At present local housing policy is in fact reduced to allocating vacant public housing units according to State-regulated criteria and at State-regulated rents to households on a State-regulated waiting-list.

The limited economic resources available are the second most important factor hampering local authority activity in the housing sector. As the central Government does not provide funds to local authorities for:

- New construction of public rental housing;
- Major repair and renovation of the existing public sector housing stock;
- Housing allowances,

local authorities cannot be expected to perform such work themselves. Central government framework conditions and active participation are seen as absolute prerequisites for local authority restructuring and increased responsibility and activity.

The particular tenure structure of Bulgarian housing underlines the need to establish a national association, with local branches, of condominium owners. Such an association should be able to act as representative of this special form of tenure in central and local discussions on housing policy and practice. It should also be used by the public sector to train and educate condominium owners and managers about the realities of market-oriented housing practices and responsibilities.

# ANNEXES

## Annex I

### **SOCIAL HOUSING POLICY in central and eastern Europe with particular reference to Bulgaria\***

prepared by Mr. Anders Victorin (Sweden)

#### **A. Background**

The continuing transition of the countries in central and eastern Europe has proven to be a difficult process, imposing considerable hardships on the economy and on the population in general. The quick and efficient transformation from a centrally planned economy to a market economy once hoped for, has in fact proved to be time-consuming and cumbersome, partly because of the problems of restructuring production to the requirements of both a home and a world market, partly because of the need to create rules and institutions in order to lay the foundations for a market economy and to ensure its continuing stability. A major problem is, in fact, the very sequencing of the transition process. These issues are now generally recognized in the countries of central and eastern Europe; the restructuring of production is well under way and the creation of rules and institutions is progressing at a considerable speed. Yet, in spite of such efforts, the process is a slow one and it will take several years before it is completed. The training of, for instance, business managers, bankers, brokers, solicitors, administrators and policy makers, as well as the population at large will take considerable time. Meanwhile, pressing economic and social problems call for immediate solutions. Also in the housing sector, the legacy of the centrally planned economy tends to create particular difficulties, which have been compounded by other problems.

*First*, the transition from a centrally planned economy to a market economy calls for a radical decrease in State and municipal subsidies to the housing sector. The costs of housing should be carried mainly by the individual households in proportion to their housing consumption. However, the population's low standard of living and low income make it difficult to carry out such a policy. Traditionally, rents have been kept very low in eastern and central Europe. The raising of rents even to cost

level has in many cases proven impossible. An increase to, by western standards, a "reasonable" level, i.e. 20 to 30 per cent of disposable family income,<sup>1</sup> would perhaps pay for heating and maintenance of the buildings, but would not cover capital costs. Such a move would moreover lead to protest, particularly in view of the simultaneous increase in prices of other, particularly imported, consumer goods, the combined effect of which leaves the citizens with very little money to meet even the bare necessities. In some countries the attempts to increase rents have even led to a mass refusal to pay rents at all. The result of these developments may well be a rapid deterioration of housing and, hence, a risk of ultimate loss of large amounts of capital invested in housing. In many countries of central and eastern Europe this is in fact not a new development. Also under the old regimes very little was spent on maintenance and repairs, leaving the housing stock in a deplorable state.

*Second*, there has been a decline in housing production, which will most likely create tensions in the housing market. This decline is largely due to the low paying capacity of the population in combination with the abolishment of general production subsidies, which were very large. Few are able to pay the costs of new production and the demand for new production tends to concentrate on the top end of the market. However, there is a need for new production also for the less wealthy. The causes are simple. There is a need for new production for demographic reasons. Without an adequate and continuous flow of new production, family formation will be stifled. Housing production must also continue for labour market reasons. The formation of new enterprises in particular, as well as the expansion of old enterprises, will be hampered unless there is sufficient housing production to provide their employees with decent and affordable housing. Both factors coincide in population

\* The views expressed are those of the author and do not necessarily reflect the views of the United Nations Secretariat.

<sup>1</sup> With particular reference to Bulgaria, one should remember that rents do not include services and utilities, such as electricity, heating, hot and cold water, etc. In Bulgaria, average expenditure on housing is currently 8.4 per cent of disposable income. Most of it concerns utilities and services, as the rent is so low and the rental sector so small that it is negligible.

centres. Furthermore, without new production, demand will eventually push the price of decent housing beyond the reach of many people.

*Third*, a rapid privatization of housing has taken place or is under preparation in most of the countries of central and eastern Europe. Privatization is seen partly as a measure to promote the willingness of households to shoulder responsibility for housing. Mainly, however, privatization is a measure to facilitate the transition to a market economy by providing citizens with some capital, and to compensate them for many years of State ownership. State property is consequently given back to citizens through various privatization schemes (free, through vouchers or cheques, at a reduced price, etc.). Such property includes housing as well as land and enterprises, although it seems that the tendency towards mass privatization of land and enterprises has slowed down in some countries; instead privatization takes place with, for instance, small investors in mind.

Privatization is often preceded by a restitution scheme for housing and other property. Restitution must precede privatization to prevent claims for the restitution of already privatized property. The privatization and restitution schemes will most likely result in a more uneven distribution of wealth. Some citizens will become the tenants of private landlords. Others will have to trade their property for food and other necessities of life. Others again will find their privatized property worthless because of a lack of demand, e.g. for the particular piece of housing they own, or because the formerly State-owned enterprise in which they have bought shares with their vouchers goes bankrupt. Those people will probably also become tenants. Such developments call for some degree of regulation of the tenancy relationship, including tenants' protection and a balancing of the responsibilities of landlord and tenant. It should also be underlined that in central and eastern Europe there is and will continue to be a need for rented accommodation, as is the case in western Europe.

In spite of a much more favourable economic development since the Second World War, the experience of western Europe is that housing problems cannot be solved through market mechanisms alone. There is almost always a need for some degree of State or municipal intervention to secure access to decent housing for the population. In the absence of such interventions, the housing problems of the population remain.

The dilemma of central and eastern Europe as far as housing is concerned is one of finding solutions to social problems in the face of scarce economic resources. Currently, in crude economic terms, the population in many of the countries is overhoused, in spite of crowding and inadequate housing (see fig. X above).<sup>2</sup> It cannot afford to foot more than a fraction of the housing bill. In developing countries we have already witnessed the growth of shanty towns, and there is a real danger that the same may happen in central and eastern Europe, un-

<sup>2</sup> The population is "overhoused" in purely economic terms, i.e. it cannot afford the existing stock. Yet, in terms of living floor area per person, the standard of housing in Bulgaria is very low in comparison to most western European countries.

less a certain degree of social housing policy is introduced at this early stage of the transition process.

It is to be hoped, however, that the economic difficulties will not become permanent, and that in the not too distant future economic developments will create sufficient wealth for the population to afford decent housing. Meanwhile, measures must be taken to preserve the housing stock and the invested capital.

## B. The cornerstones of a social housing policy

### *The notion of adequate housing in the Covenant on Economic, Social and Cultural Rights*

As noted in the ECE *Housing Policy Guidelines* (ECE/HBP/84), the right to adequate housing belongs to the realm of human rights. Housing is a necessity of life and therefore a fundamental right for all citizens of all countries, regardless of their stage of economic development. According to article 25 of the Universal Declaration of Human Rights, everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services. The right to housing and similar social rights is also expressed in various constitutions all over the world and in other international conventions, such as the United Nations International Covenant on Economic, Social and Cultural Rights. Its article 11 states:

1. The States Parties to the present Covenant recognize the right of everyone to an adequate standard of living for himself and his family, including adequate food, clothing and housing, and to the continuous improvement of living conditions. The States Parties will take appropriate steps to ensure the realization of this right, recognizing to this effect the essential importance of international co-operation based on free consent.

A primary aim of all Nations is therefore to improve the housing and other living conditions of their citizens. It is also an obligation under international law.

The right to housing is not a right of individuals as against the State in the sense that a homeless person is entitled to adequate housing upon request to the proper authority, although it has under national law sometimes been formulated in such a way. It is rather a political responsibility incumbent upon the public authorities in relation to the individual.

Although each State bears the final responsibility for such obligations, the various States in the ECE region have chosen differing ways of implementing the right to housing as expressed in the Universal Declaration of Human Rights and other international conventions. Some States have chosen a selective approach committing themselves to promoting new construction and subsidizing a portion of the total housing output with the aim of helping certain groups of the population, whereas other States have chosen a more comprehensive approach, involving contributions to the total housing programme in various ways.

It is particularly notable that the notion of housing as the exclusive responsibility of the State, much in the

same way as the right to work which existed in most of central and eastern Europe, has been replaced with a more modest, western type notion; the State will provide assistance, but will not guarantee either work or housing to its citizens.

The Committee on Economic, Social and Cultural Rights, in its General Comment 4 (1991) on the right to adequate housing (art. 11 (1) of the Covenant), discussed the meaning of the Covenant on this point.<sup>3</sup> It holds that

the right to housing should not be interpreted in a narrow or restrictive sense which equates it with, for example, the shelter provided by merely having a roof over one's head or views shelter exclusively as a commodity. Rather it should be seen as the right to live somewhere in security, peace and dignity. This is appropriate for at least two reasons. In the first place, the right to housing is integrally linked to other human rights and to the fundamental principles upon which the Covenant is premised. Thus "the inherent dignity of the human person" from which the rights in the Covenant are said to derive requires that the term "housing" be interpreted so as to take account of a variety of other considerations, most importantly that the right to housing should be ensured to all persons irrespective of income or access to economic resources. Secondly, the reference in article 11 (1) must be read as referring not just to housing but to adequate housing. As both the Commission on Human Settlements and the Global Strategy for Shelter to the Year 2000 have stated: "Adequate shelter means . . . adequate privacy, adequate space, adequate security, adequate lighting and ventilation, adequate basic infrastructure and adequate location with regard to work and basic facilities—all at a reasonable cost."<sup>4</sup>

Thus the concept of adequacy is particularly significant in relation to the right to housing since it serves to underline a number of factors which must be taken into account in determining whether particular forms of shelter can be considered to constitute "adequate housing" for the purposes of the Covenant. While adequacy is determined in part by social, economic, cultural, climatic, ecological and other factors, the Committee believes that it is nevertheless possible to identify certain aspects of the right that must be taken into account for this purpose in any particular context. They include the following:

- (a) *Legal security of tenure* (. . .);
- (b) *Availability of services, materials, facilities and infrastructure* (. . .);
- (c) *Affordability* (. . .);
- (d) *Habitability* (. . .);
- (e) *Accessibility* (. . .);
- (f) *Location* (. . .);
- (g) *Cultural adequacy* (. . .).

The Committee on Economic, Social and Cultural Rights goes on to explain the implications for States of the notion of a right to housing:

Regardless of the state of development of any country, there are certain steps which must be taken immediately. As recognized in the Global Strategy for Shelter and in other international analyses, many of the measures required to promote the right to housing would only require the abstention by the Government from certain practices and a commitment to facilitate "self-help" by affected groups. To the extent that any such steps are considered to be beyond the maximum resources available to a State party, it is appropriate that a request be made as soon as possible for international cooperation in accordance

with articles 11 (1), 22 and 23 of the Covenant, and that the Committee be informed thereof.

States parties must give due priority to those social groups living in unfavourable conditions by giving them particular consideration. Policies and legislation should correspondingly not be designed to benefit already advantaged social groups at the expense of others. The Committee is aware that external factors can affect the right to a continuous improvement of living conditions, and that in many States parties overall living conditions declined during the 1980s. However, as noted by the Committee in its general Comment 2, despite externally caused problems, the obligations under the Covenant continue to apply and are perhaps even more pertinent during times of economic contraction. It would thus appear to the Committee that a general decline in living and housing conditions, directly attributable to policy and legislative decisions by States parties, and in the absence of accompanying compensatory measures, would be inconsistent with the obligations under the Covenant.

### *A social housing policy*

The notion of what a social housing policy implies is never constant. It varies between countries and cultures, reflecting differences in beliefs, attitudes, wealth, ambitions and policies. In spite of the great differences it is, however, possible to state briefly what the component parts of a social housing policy are or might be. In this particular instance, the discussion is geared to the situation in the countries of central and eastern Europe, but also takes account of the international experience embodied in the concept of adequate housing discussed above, even if it is rather geared to the situation prevailing in many developing countries.

Clearly, a social housing policy cannot in essence be differentiated from any general housing policy; almost all of the measures involved in a comprehensive housing policy have a bearing on the social side of housing policy. Indeed, social issues tend to form the rationale of a general housing policy. If all groups and individuals in a society were able to find solutions to their housing needs, it seems that no housing policy would be required.

The means of ordinary housing policy include the promotion of housing production, the provision of housing finance, and the allocation of housing. Some of those means, however, have a more direct bearing on social issues, such as the allocation of housing to satisfy the needs of the vulnerable groups in the housing market, ensuring the right to enjoy protection of tenancy, helping out with housing finance, low rents, and, in a more general sense, ensuring that there is a sufficient supply particularly of low-cost dwellings.

Therefore, in particular with regard to what has been said in connection with the Covenant on Social, Economic and Cultural Rights, the constituent parts of a social housing policy may be described in the following terms:

- (a) Help to the homeless and the disadvantaged;
- (b) Ensuring tenure protection;
- (c) Making housing affordable;
- (d) Ensuring housing provision;

<sup>3</sup> E/C.12/1991/CRP.2/Add.1. It must be remembered that the text comes from a report from a subcommittee which was never formally adopted by the Committee. Still it can be said to express the policy actually applied.

<sup>4</sup> A/43/8/Add.1; General Assembly resolution 42/191.

(e) Other aspects of adequate housing—accessibility, availability of services, materials, facilities and infrastructure, location, culturally adequate housing.

Finally, the issues involved in the organization of an efficient social housing policy will be summarized, although the organizational issues will be discussed mainly in connection with the substantive questions. In the following sections these issues will be discussed both in general and with reference to the situation of the countries in transition, particularly Bulgaria.

### C. Help to the homeless and the disadvantaged

#### *Homelessness*

One of the most simple functions of a market economy welfare State is to provide protection and assistance to the homeless and those who are otherwise disadvantaged in their housing situation, i.e. to the weakest individuals in society, who should also have the right to live somewhere in security, peace and dignity.

The need for housing reflects a basic reality. For housing to be of lasting value to the individual, he should be able to use it for a variety of purposes; housing is an essential component of almost all aspects of life; not only does it provide shelter, but it gives the individual the opportunity to hold down a regular job, to study, to meet his friends, to raise his children and make it possible for them to go to school, etc.

In effect, however, the short-term minimum obligation of any State is to provide services for the homeless in the narrow sense of the word. This involves the setting-up of a social service to which the homeless may turn, at least to find temporary accommodation. This minimum obligation also includes services to the outsiders of society.

More important from an economic point of view is the provision of housing necessary for keeping and finding jobs. When the demand for labour increases, it is unlikely to occur precisely where the potential labour force is to be found. Therefore, in the future, enterprises and job seekers will unite in demanding a functioning housing exchange, and if that is not sufficient, new production.

From a societal point of view, and in the long term, the need for a suitable dwelling which also accommodates the needs of regular families should be recognized, regardless of the "homelessness" concept. It is a matter of promoting basic interests: the formation of families, the raising of the young, education (the work done at schools is, in spite of all pedagogical efforts, just a lesser part of the teaching and training of the young), the care of the elderly (to a very large extent carried out at home and by female relatives) and even the participation in the democratic process require a secure and adequate place to live.

It should be added, with special reference to Bulgaria, that the notion of homelessness lacks legal recognition. There are no legal provisions yet addressing the issue.

#### *Providing housing for the destitute and the homeless*

In the countries in transition housing has traditionally been the responsibility of central and local authorities. As these authorities no longer assume responsibility for the total housing situation, there is a growing danger that under the new market conditions a number of people will be made homeless. Those who are homeless or risk becoming homeless in a narrow sense are a heterogeneous group of people whose main common characteristic is that they are vulnerable; they may be poor, out of a job, in difficult family conditions, suffering from handicaps, disease, mental illness, or alcohol or drug addiction. No reasonably advanced society can refrain from assuming some responsibility for these people. They must be housed and sometimes also fed, so that they are able to lead a life with some dignity. There are a number of measures which countries can undertake to deal with this kind of problem.

At a general level some countries have tried to solve part of the problem by establishing municipally-owned social housing estates, where rents are kept low and the tenants must qualify by a low income or some other social criteria (social housing). Furthermore, the local social authorities are charged with the task of providing housing for the homeless, and they may to some extent rely on flats made available in social housing estates. They may also need to find other solutions for those clients with special needs, e.g. in institutions for handicapped or mentally disturbed people.

The rapid privatization of the housing stock in some countries in central and eastern Europe often makes the introduction of social housing in the western sense impracticable. However, there should be a possibility for the social authorities to rent flats in ordinary ownership estates to care for their clients. Most likely, such flats will be made easily available, at least during the next few years. In the present situation, however, the prices in the private market in many countries, including Bulgaria, make such an operation impractical.

Regardless of the solutions chosen, the need to cater for vulnerable people in housing calls for the creation of a social services function or network at the local level. It may consist of public services only, or of public and private (non-governmental) organizations working together.

### D. Ensuring tenure protection

Tenure takes a variety of forms, including rental (public and private) accommodation, cooperative housing, lease, owner-occupation, emergency housing and

informal settlements, including occupation of land and property. Tenure protection means protection against forced evictions, harassment and other threats. It also implies an effective protection of ownership rights such as compensation in case of expropriation and similar measures. With regard to squatters and other residents without entitlement, tenure protection implies some kind of protection against mass evictions. In this case it implies that land must be made available for the population.

“Tenancy protection”, on the other hand, is linked to tenancy of buildings and sometimes of land. The core of the concept is the notion of the protection of the home of the tenant against unfair termination of the tenancy agreement.

In a much wider sense, tenancy protection is also concerned with protection against third parties. It deserves protection as a right *in rem*. Particularly the question of whether a tenancy agreement is binding on a new owner is important. There are several reasons why the tenancy agreement should remain in force when the owner sells his property. If this is taken as a starting-point, a rather complex regulation of various details is required, including coordination with the rules on the sale of real property.

The issue of tenancy protection is intimately linked to the other issues inherent in the notion of adequate housing—affordability, accessibility, availability of services, materials, facilities and infrastructure, location and even the issue of culturally adequate housing. An important aspect of tenancy protection therefore concerns the issue of affordability. It is often held that affordability is the very core of tenancy protection, the argument being that tenancy protection is meaningless if the tenants cannot afford to stay on. Tenancy protection is therefore to some extent equated with rent control.<sup>5</sup>

Tenancy protection cannot be made absolute. In a number of situations the interest of the tenant in having the tenancy relationship prolonged must yield to the interest of the landlord in vacating the flat and making the tenant move. Typically, rules on tenancy protection indicate a number of situations in which the tenant has to move.

Moreover, there is a need for tenancy protection in the form of a proper legal framework where ownership flats are concerned. This involves, for instance, setting up an effective corporate organization which provides the individual with sufficient protection as a homeowner and as a member of the corporation.

With particular reference to the problems of Bulgaria, however, the preceding discussion on tenancy protection is, more or less, a moot question. The Bulgarian situation is characterized by an extremely low proportion of rented flats.

This means that the very small rental sector either lacks interest from a social perspective, i.e. the private sector, or is desperately needed to fulfil social needs, i.e.

the publicly owned sector, in particular the municipally-owned part. Under such circumstances, the issue of tenancy protection is overshadowed by the issue of social need and hence eligibility. Currently, Bulgarian legislation requires annual assessment of the situation of public housing tenants. Those who have solved their housing needs in some other way are no longer eligible, and have to give up their municipal flats to those applicants whose need is greater.

In the private sector, on the other hand, it is debatable whether there is currently a need for tenancy protection. It is very likely that the private rental sector will grow rapidly during the next few years. Many of the tenants in the private sector today do not need tenancy protection. However, in the future, there may be a need for closer monitoring. The typical problem with the renting of a single flat owned by a private person, who may own other flats (condominiums or one-family homes), is that the owner is likely to maintain that he has a personal need.

## E. Making housing affordable

### *The current situation in market terms*

The traditional discussion on housing affordability starts from the notion of market equilibrium where new production is feasible. The price of housing in the long run reflects the costs of new production; eventually, demand will drive the price up to such a level that building new housing becomes profitable. This implies two things. First, housing is seen as an investment. It has a value and the value of new production also affects the value of the old stock for the same reason, i.e. the demand for the old stock has driven up the price to such an extent that new production is profitable. The value of the old stock and of the new stock can, in a simplified economic model, be calculated as the present value of future profits. Second, there is a real demand for housing, which expresses itself in high prices. This presupposes that the economic position of the country is such that the population can afford new housing.

Much of the discussion in the western countries is concerned with the problems of bridging the gap between current demand and the cost of new production. If new production is to be profitable, at least in a short run, the cost of housing will be high, mainly because of the high interest rates prevailing during the last 20-30 years. Before demand drives the cost of housing up to such levels, the housing situation has, from a political point of view, become unacceptable. The high cost of housing will make production concentrate on small units. Only the wealthy will be able to afford housing according to today's western European standards.

The analysis of this problem also takes into account the fact that high interest rates have traditionally mainly been a reflection of inflation, whereas real rents have remained fairly stable. Various schemes have been set up based on this fact, mainly redistributing the financial

<sup>5</sup> See *Housing Policy Guidelines* (ECE/HBP/84).

costs over time. Other schemes give direct initial subsidies to housing investment in order to lower the initial costs. Others even give direct subsidies to cover interest payments. Many of those schemes have largely been abandoned because they have proved too costly. Redistribution schemes have also proved inefficient. They are based on increasing mortgage loans, which, at least for some time, tends to wipe out equity and even to make the value of the investment negative. This poses an unacceptable risk to the creditors. Even if the risks may be covered by means of investment insurance, the psychological impediments to such schemes are considerable.

The analysis may also concentrate on the fact that many households cannot afford the cost of "decent" housing. This is in fact the second important line of thought—the consequence of which is the introduction of housing allowance systems. Some such systems have a limited aim and scope, such as helping families with children or retired people with a small income. The main task, however, seems to have been giving general subsidies to low-income households to enable them to pay for decent housing under current conditions. To some extent such subsidies have been necessitated by the modernization of the old stock and the subsequent increase in costs. The great advantage of the housing allowance system is that it can be targeted to help households in real need. So they are, on the whole, less costly than general subsidies, such as production subsidies or interest subsidies. It is mainly for this reason that the housing allowance systems are recommended for central and eastern Europe, rather than a system of general subsidies.

Another "line of defence" is measures to decrease building costs. Therefore, increased competition in the building and building materials market is essential, as are measures to ensure a flow of inexpensive land for development. Reference is here made to the *ECE Housing Policy Guidelines* (ECE/HBP/84).

The main problem with this analysis in relation to central and eastern Europe appears to be that: (a) the income of the population, in general, is too low to make new production affordable; and (b) the resources of the States are too small to afford either general or means-tested subsidies. As noted earlier, some new production is going on, but only for the benefit of the upper income strata of the population. A third problem is very high inflation in many of the countries in transition.

Therefore, the starting-point of the analysis must be that, in the absence of rent or price controls, a market will indeed develop, even where equilibrium is well below the cost of new production. Such a market will impose considerable hardships on the population. Equilibrium will soon be reached, and the sign of this will be housing vacancies in spite of widespread homelessness.

There is, however, an even greater danger in this situation, viz. the fact that the earning capacity of the population may be so low, that "market rents" do not even cover the costs of water, heating, electricity and upkeep, i.e. the running costs of housing. (Again it should be pointed out that in several countries, including Bulgaria, "rents" do not include the cost of heating, water, electricity, etc., which are charged separately.)

Should this be the case, housing, as an investment, is worthless. Were it owned by a private owner, it would be demolished or abandoned, very much like what has occurred in the cities of North America. It should be added that the situation varies in the countries in transition.

Two points may be made in this connection. First, as already indicated, this situation is most likely temporary. It is hoped that within the next few years, economic growth will not only make it possible to pay for the costs of the existing housing stock, but also make new production possible. In most countries in transition, housing production has plummeted, yet the average size of housing units has grown, satisfying demand mainly from the upper income strata. It is intriguing, however, with particular reference to Bulgaria, that the average size of units produced in the public sector is almost as big as that produced in the private sector. Recently, however, there has also been a trend towards building very small flats, as small as 15 m<sup>2</sup>, to satisfy the needs of the average wage-earners. In both sectors, the shrinking production follows a similar pattern of fairly large units, also by western standards. There are no available statistics on the production of small units. Recent observations, however, indicate an increase in the production of such units, although the average size of new units is still large.

Second, the play of economic forces described here will not be left unchallenged by the population. It is well known, for instance, that many households in central and eastern Europe have ceased to pay any rent at all. Political pressure will also be exercised. Quite naturally, the electorate will demand that the politicians "do something". The widespread privatization of housing in central and eastern Europe is a further important factor. As the situation is complex, it is difficult to predict what might happen in the future.

During the communist period rents were kept very low. In some countries, however, there has been a marked reluctance to raise the housing cost level to a level comparable with that in western Europe. The following table gives an indication of the relationships. (See also table 19 in chapter IV.)

The statistical evidence therefore contradicts the notion of dramatically increased housing costs, at least in Bulgaria. The same is true regarding utilities. Data also suggest that housing costs are comparatively low in Bulgaria, primarily because households own their housing, and are thus able to regulate their housing expenditure. In fact, low spending on housing indicates that too little is spent on upkeep and repairs. Although it is not fully satisfactory to use the exchange rate, it gives some indication of the amounts spent in a country, e.g. on housing. For instance, average household income in Bulgaria in 1992 amounted to US\$ 155 per month, of which 7.3 per cent was spent on housing. This means that approximately US\$ 11 per month was spent on housing, which is clearly insufficient. And, as is the case in most countries in transition, capital costs are more or less unheard of. It is evident that, although costs are considerably lower in Bulgaria because of lower wages, and the cost of electricity and heating may be lower for reasons of climate and lesser use of appliances, the sums

paid by Bulgarian households are inadequate. If for Bulgaria the costs indicated here of heating and electricity were reduced by half and other costs by two thirds (real estate tax excluded), we arrive at a figure of US\$ 20.38 per sq m. For a flat of 50 sq m this would amount to US\$ 85 per month, or leva 4,600 per month at the 1994 exchange rate. In fact, the average amount spent on housing was considerably lower, whereas average household income in 1994 was leva 8,788 per month in urban areas. So housing would take up more than 50 per cent of household income, which is clearly impossible.

Table 19 in chapter IV has already shown how rents have increased dramatically in the private sector, whereas in the public sector they are still extremely low. Since the rental sector is very small in Bulgaria, it is, however, difficult to draw any definite conclusions from the data, except that the rental market seems erratic, as it often does in countries in transition.

**Rents-to-income in Bulgaria**  
(in per cent)

	1985	1990	1992	1994
Public	2.7	15.2	3.1	1.3
Private	28.3	106.6	63.6	37.0
Private Sofia	28.3	197.2	121.5	66.0

In many central and east European countries, privatization is not yet in full swing. Housing is still largely in public ownership. As long as this is the case, the public authorities have some kind of responsibility for the consequences of their response to a mass refusal to pay rent. This makes the use of private law sanctions, i.e. evictions, impossible. In Bulgaria, eviction is possible if three months' notice is given. In public housing eviction because of rent arrears is rare. In private rentals, however, it is, slightly incoherently, indicated that compulsory eviction takes place no later than a month after a court decision.

The transfer of the housing ownership to the tenants themselves, either directly in the form of ownership flats, or indirectly, to housing associations of which the tenants are members, implies full occupier responsibility: the occupier cannot easily turn to the government (central or local) and demand lower rents. But while such a transfer of ownership might lessen political tensions, it does not put the occupiers in a better position to shoulder the responsibilities for maintenance, upkeep and rebuilding. As an investment the property is therefore equally worthless to the occupier as it is to any other owner. It does, however, provide a roof over his head.

In Bulgaria, during the period 1985-1992, a large part of the relatively small public housing stock was privatized. Altogether 328,476 units were privatized, i.e. 9.7 per cent of the total stock. In 1993 a total of 6.8 per cent of the stock remained in public hands as public

rental housing, whereas the owner-occupied housing stock amounted to 92.9 per cent. Rental housing owned by other "public bodies" (cooperative, political and religious organizations) constituted 0.3 per cent.

#### *The danger of a deteriorating housing stock*

Eventually, lack of maintenance will make the housing units almost inhabitable and even dangerous. Such a negative development is particularly unattractive in multi-storey blocks of flats built on the edge of many cities and towns after the Second World War. First, the technical infrastructure of such buildings is particularly vulnerable and requires continuous upkeep and repairs as well as periodic renovation, e.g. of lifts, ventilation, electrical wiring, pipes and plumbing for heating, water and waste. Second, these installations are so complicated that they cannot be managed on a do-it-yourself basis, as in many small houses. Particularly periodic renovation is also very costly. Those households that can abandon the housing unit will do so already at an early stage of the continuous deterioration. The subsequent development will probably follow the same trends as in the cities of western Europe and North America. The housing unit and probably the whole neighbourhood will deteriorate to a ghetto, which will eventually have to be demolished.

The conclusion is simple. It is obvious that rents cannot be raised to a level that would make large-scale new production feasible. It is even doubtful whether rent levels can be raised to such a level that they will cover the running costs, including the necessary maintenance and repairs. The key goal in this connection is to prevent further decay and destruction of the existing stock. This is probably the most important issue in a social housing policy geared to the needs of the countries in transition of central and eastern Europe.

#### *Acquisition costs*

The statistical evidence is far from conclusive, but it seems to support the conclusions reached so far (see fig. XIII above).

The housing price-to-income ratio is quite alarming, indicating that the housing market in Bulgaria is very much off balance. This is, however, typical of the transition in many central and eastern European countries. There are few transactions and most of them tend to be in the upper segments of the market. Price information is unreliable, and does not really reflect a mature market. The lack of an effective financing system contributes to the slightly incoherent picture. The fact that there are few transactions is perhaps more serious. It indicates a lack of mobility in the market with possible serious repercussions for, *inter alia*, the labour market.

#### *Construction costs*

Although the house price-to-income ratio is alarming in comparison with that of western Europe, the construc-



tion cost-to-income ratio is even more so. The wild variations during the 1985-1994 period indicate great difficulties, and also perhaps the existence of price controls. Unless there are severe disturbances in the construction labour market, the construction cost-to-income ratio should remain fairly constant. In effect, as is the case in most low-tech industry, most of the costs are labour costs—either directly, or reflected in the prices of materials and services. Of course, the price of energy and financial costs also have a considerable influence on building costs (see below).

It is, however, clear that the rise in building prices from 1992 to 1994 is not merely excessive; it indicates that something is fundamentally wrong with building prices. Probably this, too, is a reflection of market imbalances, due to abnormal production circumstances. This analysis indicates that the high building prices in the transition countries will go down and eventually reach a normal level, reflecting mainly the price of labour. By monitoring and facilitating this process, the governments of central and eastern Europe could help keep house prices down.

Two other factors also influence building prices, viz. the cost of energy and the financial costs during the building period. The financial situation of the countries of central and eastern Europe makes the price of energy comparatively higher than in western Europe, which explains why building costs will be higher as well. One option is, of course, to find building materials with a lower energy content.

High inflation and hence, high interest rates, will push up building costs, and will increase the longer the construction time. Construction time has traditionally been quite long in central and eastern Europe. In Bulgaria, construction time has remained stable for the last 15 years, at 7 months for large panel buildings, 12 months for other industrial buildings and 18 months for traditional buildings. Construction time must be brought down. Also in this respect can Governments contribute efficiently to lowering housing costs.

#### *Financial costs for acquisition*

The second important factor determining the price of housing is financial costs for the acquisition of land and buildings. In many central and eastern European countries these financial costs are extremely high—making long-term loan financing of housing in effect impossible. The picture is again slightly inconsistent. It is possible, for instance, for the real interest rate on deposits to be strongly negative, and the interest rate on loans below inflation, making saving a bad deal and taking out loans a much better deal, although the interest rate is still so high that financial costs become prohibitive. In the housing sector the problems are in many countries aggravated by the lack of a developed mortgage system, and also by the lack of financial institutions. This situation severely restricts the sale and purchase of housing units. And as already indicated, people living in housing which is newly privatized usually have no experience of financial costs, and many transactions take place on a cash or barter basis.

Provided that some solution has been found to the institutional problems of the credit market, index-linked loans could, under certain conditions, be made to work also when inflation is high. This, however, presupposes that wages and salaries as well as the prices of real estate keep up with inflation, which is not always the case. It also presupposes that the lender is very stable, e.g. the government or a large financial institution. In Bulgaria, house prices have not kept up with inflation, but household income has. Yet, this situation is not tenable because of falling GDP, unless the drop in GDP has really come to an end. The 1995 GDP was only 76.5 per cent of the 1989 GDP.

**General inflation, house price inflation and household income, 1990-1994**

	1990	1992	1993	1994
General inflation (a)	100	1 030	1 688	3 745
House price inflation (b)	100	163	231	277
Household income (c)	100	487	718	1 199
Ratio b/a	1	0.16	0.14	0.07
Ratio c/b	1	2.99	3.11	4.33
Ratio c/a	1	0.47	0.42	0.32

Some stability has been reached between household income and house prices. This speaks in favour of indexed-loan systems. However, the relationship between general inflation and house price inflation shows that housing prices are falling in real terms, which might deter investment.

#### *Running costs*

The third important component of housing costs is running costs. Whereas "rents" are largely subsidized in central and eastern Europe, housing utilities are mostly not. In particular, the price of electricity, heating and hot water is set according to cost, i.e. according to world market prices, and is charged separately.

One would expect that in a country such as Bulgaria this would mean a considerable increase in household expenditure, as is the case in many other central and eastern European countries. Yet, in Bulgaria, this does not seem to be true. Housing utility expenditure appears to be fairly constant and, although rising in terms of income, still quite normal compared to western European countries. This indicates a high government subsidy of electricity and heating. In most central and eastern European countries, however, lowering household utility expenditure is an important goal of social housing policy so as to lower housing costs in general. Under current economic conditions a number of countries are being forced to lower such subsidies quite dramatically.

**Bulgaria: Tenants' housing utility expenditure by income (in per cent)**

1984	1990	1992	1993	1994
7.2	7.3	7.3	8.1	8.4

## F. Ensuring housing provision

The task of ensuring housing provision includes two different strategies. The first one is to ensure that the existing stock is in good condition, modernized and used for its intended purpose. It encompasses defensive measures in order to ensure housing provision. The second one is to make possible a sufficient flow of new production to meet new demand for housing resulting from demographic factors, labour market circumstances, etc. It encompasses positive measures to ensure housing provision.

### *Preventing decay in urban areas*

In relation to the existing stock, the overriding concern is to prevent further deterioration. How this should be arranged is a very difficult matter. In the short run, most of the housing stock has no or even a negative economic value. Gradually, as the economy picks up, the value will increase. This will, however, not take place uniformly. Some areas will never regain their value, whereas others will become very valuable. This development cannot be predicted with certainty. A radical solution is to write off all value of housing investment immediately. Rents should therefore be set with the aim of covering only maintenance and repairs. Electricity and heating should be charged at cost price. Where this proves too high, some kind of emergency subsidies will have to be given.

So it would seem that most of the housing stock should be privatized at no cost; in attractive areas, however, a price should be charged. There is little hope of doing this in a fair way. Some households will always gain more and others will gain less. Any increase in the value of housing will, however, remain with the households.

In view of the poor financial resources of the population at large, it appears obvious that in the short run the maintenance business cannot be made profitable. The question of whether it can be privatized is therefore uncertain. The need for public subsidies will most likely continue, and with their help, private and efficient maintenance and building-repair firms could exist.

### *Conversion of the housing stock to commercial stock*

The main thrust of any housing policy in the difficult period of transition with little new construction, particularly one with a social aim, must be to prevent the deterioration of housing. It is also particularly important to prevent the unregulated conversion of housing stock to commercial stock. During the period of transition such conversion may appear particularly attractive to investors: the low price of the housing stock makes conversion much more attractive than new construction. The typical structure of cities in countries in transition also makes such conversion particularly attractive.

Such conversion is unavoidable, but there are strong reasons for the municipal authorities to exercise a fairly strict control over the situation. A possible solution is to introduce a zoning requirement for such conversions. The municipal decision on zoning is to be preceded by negotiations with the landowners on the development of the particular area (which may be quite small, e.g. just an individual building). The notion is that the municipal authorities exercise their monopoly on zoning and building permits in order to reach a favourable agreement with the developers whereby the developers undertake to perform other development work too.

### *New construction: self-help*

In a number of towns and villages and even in suburbs much of the new construction is carried out by the owners themselves. There has always been a tradition among farmers to build their homes, stables and barns themselves, perhaps with the help of a skilled carpenter. In some countries this tradition has extended into urban areas. The municipalities as well as voluntary organizations have facilitated self-help for people with a low or medium income to help them build their own homes. The target group is in most cases young couples with steady jobs and regular incomes who need a better home, but cannot afford to buy one in the regular market. This is partly done by providing advice, including blueprints and rented equipment. More importantly, on-site instruction is provided by experienced craftsmen (carpenters, bricklayers, plumbers, etc.) and particularly difficult parts of the building can also be constructed or performed (sometimes even prefabricated, e.g. staircases) by the organization. There is often a certain amount of flexibility involved here.

Such a programme can also offer subsidized prices on building materials, something which has to be monitored closely. Even in western Europe building materials tend to vanish from building sites at an alarming rate.

It is particularly essential to provide for simple buildings which are yet flexible enough to allow for later extensions as well as improvements. A few solutions could be commissioned from skilled architects, something which would also give the prospective builders a choice of models for their future homes.

Self-help programmes can, however, only partly solve the affordability problem. In view of the extremely low paying capability of the population, the buildings erected under such programmes have to be very simple indeed. Therefore, tightly monitored programmes of subsidized building materials are indispensable for their success. Probably they also require interest subsidies since part of the costs for the buildings (and the land) has to be covered by loans.

Self-help can also be an efficient measure for sitting tenants. This measure has not been very much tested in the west, but it is obvious that cooperative housing is to a large extent based on the opportunity for tenants to perform some of the upkeep and repair jobs themselves. This mainly concerns interior decorating, but could be widened to include also exterior parts of buildings and

plots. In such a way savings could be made, making more fundamental repairs and renovations economically feasible.

#### *Ordinary new production: setting priorities*

Much new construction is taking place in the countries in transition, most of it geared to the needs of the wealthy. In a number of cases, however, there is a genuine need for "ordinary" new production. In many quarters it is held that housing production could serve as a driving force for economic growth. There is also a need to keep the building industry going. However, the economic resources of these countries do not permit much new production, since it has to be highly subsidized. The question is then what the criteria should be for allowing such production to start. The crucial matter is one of priorities. When resources for new production are scarce, it becomes imperative to put housing policy in a wider societal perspective. Naturally, social policy issues should be taken into consideration, but even more importantly, labour market, industrial and regional policy must be integrated into housing policy decisions. In particular, new production must be used to support the formation of new enterprises on which the success of the transition process relies.

If, however, new housing is used to support the labour market and industrial policy, it is important that such policies are not hampered by particular enterprises being made to pay for housing expenditure over and above normal taxation. The former widespread practice of industrial or service enterprises owning and paying for the housing of their employees is not compatible with modern western-type policies, and would put these enterprises at a disadvantage in relation to their western competitors. The picture is, however, a mixed one. In a number of the newly industrialized countries in eastern Asia, it is common for large enterprises to own housing. Some enterprises might find it to be in their best interest to promote housing for their employees. If this is the case, they should be allowed to do so, provided that proper legislation is introduced to protect the workers/tenants.

#### **G. Other aspects of adequate housing—accessibility, availability of services, materials, facilities and infrastructure, location**

The other aspects of adequate housing are here treated jointly, since they often concern the same issues. In particular, however, the accessibility aspect of housing concerns the needs of disadvantaged groups—the physically disabled, children and the elderly, but also the mentally ill, victims of natural disasters, etc., who should enjoy some degree of priority in housing. In this sense access to housing means a right to housing. In a more narrow sense, however, accessibility implies physical access to the home, i.e. housing should be built and equipped in such a way that access for the physically handicapped, children, the elderly, etc., is not made

more difficult or impossible. In this respect much needs to be done in central and eastern European housing.

Availability of services, materials, facilities and infrastructure implies that an adequate house must contain certain facilities essential for health, security, comfort and nutrition. This includes simple amenities such as easy access to drinking-water, energy for cooking, heating and lighting, sanitation, food storage, refuse collection, site drainage and emergency services. Most housing in the countries in transition meets those requirements. However, the transition itself may pose a threat to the availability of those amenities. It is imperative that the infrastructure should be kept intact also during economic hardship—electrical wiring, water and gas pipes, drainage pipes, waste-treatment plants, etc.

The location aspect of housing means that housing must be located so that residents have access to employment, health-care services, schools, child-care centres and other social facilities. The public transport system is well developed in most countries in transition, so the location of housing is in general not a problem. However, the growing financing problems of State and municipal agencies may lead to a considerably lower level of service, or to steeply increased prices for public transport. Similarly, other services may be cut down, and not be replaced by private or community services.

#### **H. The organization of an efficient social housing policy**

##### *Integration of social housing policies into regular housing policy schemes*

Most of the issues of any housing policy are relevant to social housing policy; in effect the social aspect is one of the most important reasons for making a housing policy. On the other hand, it is more difficult to conceive of a social housing policy in a context where other aspects of housing policy are absent, unless one is restricted to a mere discussion on social welfare and aid. The first observation to be made is that a social housing policy should be effectively integrated in the regular housing policy scheme of any country. However, some aspects of social housing policy are sometimes regarded as purely social issues, such as temporary shelter for the homeless, which may be more efficiently handled by the welfare authorities. Similarly, the housing of the mentally retarded, of drug addicts and alcoholics, might be seen as a combination of medical and social problems. Yet, should homelessness be a widespread phenomenon, the methods of social welfare will prove insufficient to deal with it—it will have to be treated as a part of normal housing policy. Reference is here made to the *ECE Housing Policy Guidelines* (ECE/HBP/84).

##### *Setting the goals for a social housing policy*

In a period of transition, traditional principles of goal-setting do not apply in the same way as they would under "normal" conditions in a western European

country. Although western European countries also have to foresee a certain continuous and unavoidable change, the countries of central and eastern Europe must accommodate their goal-setting both to a period of transition and to a final goal of market economy conditions.

The discussion here is mainly concerned with goal-setting during a transition. Quite naturally and also for political reasons, housing policy in general, and social housing policy in particular, must relate mainly to short-term and intermediate goals. The needs of a great part of the population are immediate, and the needs of the rest of the population are seldom perceived as long term.

Any population may accept to postpone their immediate or short-term needs, until there is a period of general economic improvement, when the chance of finding better accommodation is high as a result of higher standards of living, higher wages, etc. It may also occur when chances are offered for improved living conditions through self-help.

#### *The means of a social housing policy and the responsibility for its implementation*

The means of a social housing policy are, on the whole, the same as those of an ordinary housing policy. They are discussed here in relation to the fundamental parts of a social housing policy. In this connection the issues linked to the responsibility for implementing a social housing policy will briefly be touched upon. Reference is also made to the *Housing Policy Guidelines*, in particular as concerns the division of responsibilities in the housing sector.

In relation to the *homeless and the disadvantaged*, the first line of help should be municipal or local government social services. A social service agency should provide temporary shelter or financial assistance to prevent people in financial difficulties from losing their homes. Often social services are provided for the elderly and the handicapped through such an organization. However, there may be reasons to create separate organizations or branches within the social services to cater for such groups, as well as for the young. Also the need for assistance of ex-convicts and others with a criminal record may be dealt with separately, sometimes as part of the criminal policy system.

The social services need to keep a stock of flats available on short notice to accommodate people in need. In acute cases, hotel or bed and breakfast accommodation may be sufficient. In the long run, however, such arrangements are not acceptable.

With regard to the needs of *low-income groups*, many countries have created a special social housing organization with its own housing units. Another option is to give private landlords social responsibilities. One might add that social housing is not linked to a specific form of tenure, but might rather be seen as support to low-income households in the form of low housing costs. Other countries have chosen a different solution: they put the stress on housing allowances to make it possible for low-income households to live in ordinary accommodation.

It may well be that many of the countries of central and eastern Europe will decide not to keep housing in public hands, in which case a housing allowance system is to be preferred. In view of the difficulties for the population in general, housing allowances may be the most cost-efficient means of social housing policy for the Governments in those countries. The introduction of social housing as well as of a housing allowance system presupposes the creation of an organization to deal with such matters responsibly and effectively.

Ensuring *tenancy protection* is done through legislation, and has already been achieved in most countries of central and eastern Europe. Tenancy protection is partly linked to the affordability, as well as to the issues of habitability, location and services. Tenancy protection is best handled by judicial authorities, and because of the need for expediency and balancing conflicting interests, a rent tribunal system is sometimes chosen rather than ordinary district courts.

Making housing *affordable* is part of ordinary housing policy as long as it does not concern the very poor and the homeless. In view of the current situation in the countries in transition, it is obvious that the links to general economic policy may even be stronger than in western Europe, e.g. as far as inflation and interest rates are concerned. Also, affordability requires a fairly rapid increase in the purchasing power of the population. This report has presented the issue of affordability as intimately linked to the issue of *ensuring housing provision*. It has been argued here that in the short run, there is a genuine danger of housing units being lost because of a lack of resources for maintenance and repair. It has also been argued that the low paying capacity of the population severely limits the demand for new housing. The result may well be that an equilibrium between supply and demand is established at a level below that of the costs of new production.

It is therefore suggested that short-term measures should be taken by Governments and municipalities to prevent the loss of housing units, for instance by assuming responsibility for repairs, if necessary requiring the owners to pay the costs at some later stage. It has also been suggested that privatizing housing service enterprises may not be feasible because they might not be profitable. Such matters should be dealt with under a system of municipal or local government quality control and building inspection system, which is normally part of an ordinary housing policy scheme.

As far as the cost issue affects housing provision, it has also been suggested that the costs for acquisition of housing as well as building costs may reflect a lack of market maturity, and that after some time conditions will become more normal. Particularly building costs should go down to reflect the costs of labour and energy; improved building techniques will also bring financial costs down, as the production time is shortened. However, short production time should not mean using damp building materials.

## I. Conclusions

The essence of a social housing policy in the current situation in central and eastern Europe must be an enabling approach to help people to find, maintain and keep decent housing. The essential feature of such a social housing policy is an attempt to overcome today's economic difficulties in the hope of a rapid improvement during the next 10 to 20 years.

Some segments of the population will always need society's support to solve their housing problems. It is recommended that, in accordance also with international legal obligations, appropriate measures are taken to deal with such problems. At the very least, the needy and vulnerable must be given a roof over their heads. The ambition, however, must be to accommodate the wider housing needs of the population, in relation to the many housing functions.

It is further recommended that tenancy protection should be introduced, if this has not already been done. This recommendation includes commercial tenancies and it also has a bearing on the situation of homeowners. The requirements of social housing and of increased mobility may, however, warrant varying solutions.

The affordability problem is, because of the low paying capacity of the population, for the moment a moot one. A social housing policy must be directed towards helping the poorest segments of the population, mainly with housing allowances. It will probably be impossible in the short run to raise rents to a level where new production will be profitable. It may even be impossible to raise rents to a level where they will cover the costs of necessary maintenance and repairs. The main thrust,

therefore, of a genuine social housing policy at the current stage of the transition process must be to prevent the future loss of housing units because of decay and destruction due to lacking maintenance and repair.

New production will be necessary; perhaps here a self-help approach would appear particularly appropriate. People are given advice, help, materials, etc., in order to build their own homes. It can, however, only work with small houses. In the long run, new production is inevitable. It has been argued here, however, that large-scale new production will have to wait until the general economic situation improves.

In relation to the existing stock, the overriding concern is to prevent further deterioration. It is recommended here that government authorities assume a practical and financial responsibility, if the enabling approach, which must always form the basis of any housing policy, does not work.

Most of the housing stock should be privatized at no cost, if privatization is the choice of the authorities. In attractive areas, however, a price should be charged. There is little hope of doing this in a fair way. Some households will always gain more and others will gain less. Any increase in the value of housing will, however, remain with the households.

A crucial point, open for discussion, is whether State or local authorities should keep a portion of the stock in public ownership to create a social housing sector. It has been argued here that such stock will, in a manner of speaking, create itself—in some districts the authorities will have to accept responsibility for housing because private ownership will not be feasible. However, a rental sector must remain, and part of it should be publicly owned.

## Annex II

### DIRECTORY OF AUTHORITIES AND PRINCIPAL ORGANIZATIONS RELATED TO THE HOUSING SECTOR

#### A. Parliament

Social Policy Commission

Ministry of Interior  
29 the 6th of September Str.  
Sofia  
Tel: +359 2 87 75 11

#### B. Central committees and similar bodies coordinating government housing policy on the national level

Committee on Energetics  
8 Triaditza Str.  
Sofia  
Tel: +359 2 86 191

#### C. Government ministries, departments and public authorities related to the housing sector

##### (a) Direct responsibility:

Ministry of Regional Development and Construction  
17-19 Kiril i Metodi Str.  
Sofia  
Tel: +359 2 83 841  
Fax: +359 2 87 25 17  
Housing Policy Division  
International Relations Division

##### (b) Indirect responsibility:

Ministry of Finance  
102 G.S. Rakovski Str.  
Sofia  
Tel: +359 2 86 91  
Taxation Administration Main Division

Ministry of Justice  
1 Slavianska Str.  
Sofia  
Tel: +359 2 86 01  
Legislation Council

Ministry of Labour and Social Care  
2 Triadica Str.  
Sofia  
Tel: +359 2 86 01

Ministry of Environment  
67 William Gladstone Str.  
Sofia  
Tel: +359 2 87 61 51

#### D. Specialized institutions providing services related to the housing sector

National Statistics Institute  
2 Panaiot Volov Str.  
Sofia  
Tel: +359 2 43 401

National Commission on Prices  
(at the Council of Ministers)  
4 A Slaveikov Sq.  
Sofia  
Tel: +359 2 88 05 41

Trade Unions' Institute  
1 Macedonia Sq.  
Sofia  
Tel: +359 2 86 61

Agency for Economic Forecasting and Research  
(at the Council of Ministers)  
Ministry of Economic Development  
1 Vasil Levski Str.  
Sofia

Bulgarian Construction Chamber  
46 Dunav Str.  
Sofia  
Tel: +359 2 83 38 47 or 88 18 59  
Fax: +359 2 83 56 53

The Board of the National Compensations Fund  
2 Kniaz Dondukov Str.  
Sofia  
Tel: +359 2 80 47 35  
Fax: +359 2 867 27 67

The National Bank of Bulgaria  
1 Kniaz Alexander Batenberg Str.  
Sofia  
Tel: +359 2 85 51

State Savings Bank  
19 Moskovska Str.  
Sofia  
Tel: +359 2 88 10 41

The United Bulgarian Bank  
72 Knyaginya Maria Luiza Blvd.  
Sofia  
Tel: +359 2 31 81 92

The Post Bank  
1 Bulgaria Sq.  
Sofia  
Tel: +359 2 68 92 51

National Centre for Regional Development  
and Housing Policy  
14-16 Alabin Str.  
Sofia  
Tel: +359 2 84 111  
Fax: +359 2 54 32 07  
Housing Policy Department

National Centre of Environment  
and Sustainable Development  
7 Industrialna Str.  
1202 Sofia  
Tel: +359 2 394 725  
Fax: +359 2 392 196

**E. Organizations related  
to housing development**

National Association of Real Estate Agencies  
34 Denkoglu Str.  
Sofia  
Tel: +359 2 81 65 65 or 80 27 74

### Annex III

## LEGISLATION RELATED TO HOUSING POLICY IN THE REPUBLIC OF BULGARIA

<i>Legislative act</i>	<i>Published in State Gazette issue/year</i>	<i>Supplemented and amended State Gazette issue/year</i>
Constitution	56/1991	
Ownership law	92/1951	12/1958, 90/1960, 99/1963, 26/1973, 27/1973, 54/1974
Citizens' ownership law	26/1973	
Amnesty and restitution of expropriated properties law	1/1991	21/1991
Restitution of some expropriated real property law pursuant to territorial and urban development law, planned development of human settlements law, urbanization of human settlements law, State real estate law, ownership law	15/1992	
Restitution of nationalized real estate property law	15/1992	28/1992
Restitution of property to persons of Turkish origin who wish to return to Turkey or other countries	66/1992	
Rent relationships law	53/1992	26/1973, 32/1973, 42/1973, 33/1977, 36/1977, 36/1979, 45/1984, 63/1984, 88/1986, 21/1990, 101/1990
Settlement of housing problems of persons with long-term housing saving deposits law	82/1991	62/1992, 94/1992
Housing cooperatives law	63/1991	
Territorial and urban development law	29/1973	32/1973, 87/1974, 03/1977, 102/1977, 36/1979, 3/1980, 45/1984, 19/1985, 36/1986, 14/1988, 31/1990, 32/1990, 15/1991
Obligations and contracts law	275/1950	02/1950, 69/1951, 92/1952, 85/1963, 27/1982, 30/1990, 12/1993



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