

Gojko Bežovan  
University of Zagreb  
Croatia

## **SOCIAL HOUSING AS A RESIDUAL PART OF SOCIAL CARE**

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### **Options to Social Rental Housing in the Central and East European Region Central and East European Workshop on Social Housing**

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#### **Introduction**

This paper gives an insight to housing policy inheritance from the socialist period, and briefly presents major trends of changes in the Croatian housing policy from 1990 onwards. The paper briefly informs about the current housing policy programmes and their achievements. An overview of situation in social housing is substantiated by the results of recent researches, and the author points out the initiatives and possible resources for the development of this part of social policy.

#### **Housing policy inheritance from the socialist period**

Public housing accounted for 25% in the structure of the housing stock, and it was mainly concentrated in larger cities. For example, in Zagreb they accounted for as much as 45% of the housing stock in that period.

In the end of the 1980s, the following housing policy programmes existed in Croatia: public housing construction, marginal social housing construction for the lower income citizens, housing allowance and housing loans under favourable conditions. Subsidies related to the purchase of building material VAT-free, for housing units construction in socially organised construction and building of housing units and family houses through housing co-operatives (Bežovan and Dakić, 1990). Subsidies also related to obtaining the building land under favourable conditions.

It is important to stress that in the socialist period there was no relevant practice of social housing construction for lower income households, as housing programmes were mainly for the middle classes.

## Main trends of changes in the Croatian housing policy from 1990 onwards

After the political changes of 1990, the first government announced the implementation of a comprehensive housing reform and reassessment of housing rights. Housing contributions for employed people were cancelled, as well as the role of the companies in providing for the housing needs of their employees. That change was accompanied by the change of the institutional framework of housing policy. Former local organisations, which had been in charge of the construction and maintenance of public housing, were first colonised by incompetent people from the party that won the elections, and later privatised, so that local authorities remained without the professional potential for dealing with housing issues.

The new Constitution (1990) does not mention responsibility of the state to help the citizens in meeting their housing needs. Withdrawal of the state from the housing, deregulation, privatisation and strengthening of unadjusted market relations were the housing policy characteristics in Croatia in the beginning of the 1990s (Bežovan, 2008a).

The most important part of the housing reform implemented during the 1990s in Croatia, as well as in other countries in transition (Hegedüs, Mayo and Tosics, 1996) is the sale of public housing. The process of selling public housing was taking its course concurrently with the process of denationalisation. Several social groups became the victims of this process, while the new political elites gained considerably, as they obtained expensive housing units for small amounts of money. A part of the money from the sale of public housing was supposed to be spent on social housing construction. However, this legal provision was practised by a very small number of local authorities (Bežovan, 20004.).

The sale of public housing changed the housing tenure structure (Table 1). Social housing today accounts for less than 2% of the housing facilities.

Table 1: Housing Tenure Structure in Croatia and in Zagreb in 2001

Housing Tenure	Croatia		Zagreb	
	Households 1,477,377	100.0%	Households 275,464	100.0%
Homeownership	1,225,235	82.9	222,697	80.8
Private renting	49,259	3.3	11,742	4.3
Social housing	42,195	2.9	9,630	3.5
Renting part of the flats	12,570	0.8	2,630	0.8
Housing with relatives	110,008*	7.5	23,375	8.5
Others	38,110	2.6	5,731	2.1

Source: Census, 2001.

\*Professionals from Statistical Office think that 60% of these are on the private rental market.

Restitution of the land to previous owners influenced problems with urban planning. In such circumstances local authorities faced with the problems to ensure land for social housing.

The war in Croatia 1991-1995 caused numerous housing problems: refugees, displaced persons, demolition of housing units and infrastructure. With regard to housing policy in the second half of the 1990s, the priority was the renovation of housing units and housing estates, and accommodation of the victims of war (Radić, 2004.).

Housing allowance is a part of the social care system and is the responsibility of local authorities, and regional authorities subsidise the costs of fuel. In total, approximately 2.4% of Croatian households are included in these programmes (Bežovan, 2008). Housing allowance program is visible in larger cities, but in smaller place in fact it doesn't exist. In case of electricity price increase and in the debate on the gas price increase to market prices government doesn't see relevance of housing allowance programme to cope with this issue.

The introduction of VAT (22%) for building material and services in 1996 increased the price of newly built housing units. In the previous period, no VAT was added to the price of building material and services in construction industry.

The housing savings programme was introduced in 1998. Related to the debates on the efficient spending of the money from the state budget in 2005, the state incentives were reduced in 2005, so that they amount to 15% (instead of former 25%) i.e. 750 HRK<sup>1</sup> (prior to that 1.250 HRK per depositor who saves 5,000 HRK per year. Approximately 10% of the citizens are involved in the savings banks programme According to research of M. Tepuš (2006.) this programme is not very much competitive on housing market. As beneficiaries of this programme are mainly well of households with a good housing there are requests in public debates for serious evaluation of housing saving scheme.

The long-term loan programme for families younger than 35 was introduced in 1998, and it lasted for two years only. Simply, without any explanation the new government stopped the programme.

In 2001, the new government introduced state subsidised housing construction as a centralised, top down, programme of helping the families that are buying the first housing. The program has been promoted as the project of one political party (Tepuš, 2005.) The prices of such housing are considerably lower than the prices on the market. Until the end of 2006, within this programme 3,491 housing units were built. Within the programme, a partnership

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<sup>1</sup> 1 HRK is 7,2 EURO.

with local authorities for the social housing construction is offered. Towns should ensure land and infrastructure, and the state ensures favourable loans. However, only one town has used the resources for these purposes and constructed some 60 housing units. As they were not any evaluation of the results it is not clear what are the real contributions of the programme to pave the way of the new housing policy.

Since 2003, a tax benefit for the real property tax, amount of 5%, for persons who are buying their first housing unit has been introduced. A tax incentive has also been introduced, through which investment for buying or building an apartment or a house i.e. investment in maintenance of a housing unit, and interest rates for housing loans are accepted as expenditures in the income tax. Total tax exemptions are restricted to the amount of 12,000 HRK. Recent research give the evidence that tax incentives are more and more important for the first buyers (Bežovan, 2008a).

At the same time, a benefit for the payment of rents has been introduced. Namely, residents can use the tax benefit for income tax on the basis of renting contract. As limited number of landlords are willing to make the contract this measure has not produced adequate effects.

Water charges for new building housing (kind of environmental tax) was introduced in 2005. This charge amounts to 30 HRK/sqm in Zagreb, while in other parts of Croatia it amounts to 20 HRK/sqm. In the areas of special state care the charge is 7.5 HRK/sqm. This is yet another governmental measure that contributed to the increase of the price of housing.

Housing programmes and tax incentives for housing support middle class households. Authorities, national and local, were not interested in the offered programmes of foreign assistance that aimed to promote social housing construction and the development of non-profit housing organisations. A part of the professional public considers that such actions protect the interest of the construction lobby, which is often called “construction mafia”, as it is not in their best interest to show that cheap housing can be constructed.

Domination of unregulated market supported by favourable housing loans, in circumstance of limited role of local authorities in land policy, during the last five years increased housing prices. In such circumstances affordability is a crucial developmental issue<sup>2</sup>.

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<sup>2</sup> Very high housing prices in Croatia, in comparison to even better developed country, can be explained with influence of real estate prices at the Adriatic coast (Sunega, Bežovan, 2007).

## **Social housing**

The Law on Housing Rental from 1996 made public housing that were not sold, and in which lower income households live, the housing with protected rent. This means that these are social housing units. The local authorities own these housing units, and the government determines the amount of the rent. Housing units in the stock of social housing are small, in average 55 m<sup>2</sup>, poorly maintained and regularly older<sup>3</sup>. Housing units constructed with the funds from public housing sale and housing units based on the rights of Croatian veterans are parts of this stock.

Some 4,500 households, former tenants with the housing right in privately owned housing, belong to this tenure structure. Housing owners demand the restitution of housing units, and the cases of forced eviction of protected tenants are frequent. Many disputes are submitted to the national and international courts with regard to these housing units. The money from the sale of public housing should have been used to accommodate these victims of privatisation. However, there was no government's initiative to solve this problem.

Rent in social housing is very low, amounting to 2.36 HRK/ m<sup>2</sup> (0.33 EUR), which is not sufficient for the maintenance. A low rent is a part of the clientelistic type of governance. Local authorities and housing owners suffer losses due to that. It is one of the reasons because of which the owners are selling these housing, but under the conditions less favourable than those used for the sale of public housing.

During its term of office from 2008-2011, the government has not planned the new measures for social housing<sup>4</sup>. Problems of the housing for vulnerable groups and the need to develop social housing programmes are presented in the Joint Memorandum on Social Inclusion of the Republic of Croatia prepared in 2007 within the programme of the European Union accession. One of the priorities is the national programme of social housing. Yet it has been shown before that such programmatical documents are not being implemented.

## **Research results**

Within the research of housing allowances practice in the Croatian towns conducted in the towns with more than 20,000 residents in the beginning of 2008, a mail survey was sent to 31 towns, and we received responses from 26 towns. A part of the research related to the social housing issues (Bežovan, 2008).

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<sup>3</sup> In comparison to developed countries housing standard in Croatia is relatively low (Bežovan, 2004).

<sup>4</sup> International promotion of social housing like, ECE-UN *Guidelines on Social Housing, Principles and Examples*, hasn't impact to Croatian government.

Most social housing units are in larger towns: Zagreb (7,657), followed by Rijeka with 476, Varaždin 390, Osijek 369, Velika Gorica 284 and Split with 249.

Twelve towns state that they experience problems with households that moved into such housing illegally. In Zagreb, where there are 2,282 units moved into illegally, even can be seen like political issue. It is 30% of social housing stock. Very often, social housing is a field of social confrontation.

During the past ten years, the number of social housing increased very slowly only in five towns, in eight towns it is almost the same, while in nine towns it has decreased. As the number of social housing has increased in only five towns, we can see it is a residual social care programme that cannot meet the increasing demand for social housing<sup>5</sup>.

We have checked whether the protected tenants have the possibility to buy the housing units they live in, i.e. has the town made the decision to sell them. Nine towns made the decision to sell these housing units, and that is the number of towns in which the number of social housing units is decreasing. The insight into the practice of such sales to the sitting tenants shows that speculative interests are often behind such transactions, and that these housing units are later sold for larger amounts of money.

Some large towns that have most of such housing units complain that, due to low rent which are not sufficient for maintenance, they are covering the losses for managing and maintaining these housing units. The town of Zagreb has prepared a decision to sell these housing units because of the losses in their management.

It would be expected that the towns invest in new social housing construction. Namely, funds from the sale of public housing owned by towns should have been spent on social housing construction. However, only twelve towns have invested in social housing construction during the past ten years<sup>6</sup>. Bearing in mind the size of towns, most social housing was built in Varaždin (140), Zadar (126) and Osijek (105). Towns most frequently buy housing units on the market from their budgets, and pay for them prices higher than those for which they could construct them. Larger number of social housing units (approximately 900) and public renting (approximately 800) are in construction as investment of capital Zagreb.

Without a clear national housing policy with regard to the investment in social housing construction, it is not to be expected that the towns would invest more in it.

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<sup>5</sup> Workshop with representatives of towns was a part of the project. From the debates on workshop it is very much clear that social housing is a marginal part of local social care programmes.

<sup>6</sup> Under the pressure from the trade unions, in 2007 the government set aside 11.5 million HRK from the proceeds of the sale of public housing for the programmes of accommodation of civil servants and employees (Bežovan 2008b).

In nineteen towns there are priority lists, based on applications, so that the households that will get social housing have been selected already. There is evidence on demand for social housing and institutionalised practice of housing distribution through public call.

As it was mentioned earlier, low rent calls into question the sustainability of the social housing project. We have asked the town representatives do they agree with the following statements, and have received the answers as follows.

	Yes	No	No answer
Protected rent should be increased	12	7	7
A considerable part of protected tenants are not poor households	10	8	8
Level of rent should be determined by the towns, owner of housing	18	2	6
Adequate level of protected rent in your town should be .. per m <sup>2</sup>			

Although protected rent is really low and cannot be compared with the market rent, the attitude of seven towns that protected rent should not be increased seems unclear. For example, market rent on an averagely attractive location in Zagreb is approximately 50 HRK per m<sup>2</sup> (7 EUR). Thus on the subtenant's market, the rent for an apartment of 40 m<sup>2</sup> amounts to 2,000 HRK, while protected rent for such an apartment is 94.4 HRK.

Researchers can often hear the attitudes of the employees in local authorities, as well as others who deal with the housing issues in a wider sense, that protected tenants are not always poor households. The representatives of ten towns advocate such opinion. This means that the criteria for getting social housing should be more means tested and accepted in general public. Some towns point out the problems related with rent paying, and the cases of demolition of new social housing units are frequent.

Eighteen towns consider that they, as the owners of social housing, should determine the level of protected rent. Towns provide different answers to the question about the amount of protected rent, and suggestions range from reducing it to 1.55 HRK per square meter to increasing it to 8 HRK per square meter.

Allocation of housing units with protected rent to scientific, cultural and public workers, as a part of the socialist inheritance, is practice in nine towns. The city of Zagreb has allocated 142 such housing units during the past ten years. Split allocated 41, and Zadar 46 housing units. In seven towns, increased rents are paid in such housing units. Rent in Koprivnica is 12.75 HRK per m<sup>2</sup>, in Zagreb 11.80 HRK, and in Rijeka 8.71 HRK.

We have asked the town representatives do they have housing for temporary assistance for the families who found themselves living in the streets? The answer was negative in 23 towns, and three towns are without answer. One town stated that they have so called necessary housing, a room with common usage of the bathroom.

The homeless, as an increasing vulnerable group in Croatia, can count on the social care programme in seven towns (Zagreb, Rijeka, Split, Osijek, Zadar, Karlovac and Varaždin). The shelters for the homeless with certain capacities are found in larger towns, where homelessness is an emerging problem. In three cases the towns organise and pay for the costs of shelters, and in three cases they do it in co-operation with civil society organisations.

With regard to the assessment of the housing situation in these towns, we offered next statements, and got the following results:

	Yes	No	No answer
Flats are increasingly expensive	20	2	4
Young families find it difficult to get a flat	21	2	3
Market rents are high	19	2	3
Housing costs are increasing and that threatens the standard of living	21	2	3
Towns should construct social housing	22	0	4

The statements about the increasingly expensive flats, young families who find it difficult to get housing, high rent on unregulated market and the increase of the cost of housing that threaten the standard of living can be interpreted as reliable indicators of the housing crisis in these towns.

In eleven towns, mainly large ones, civil society organisations that advocate housing programmes or help families at risk are active. There is foundation in Zagreb that builds social housing and rent it, almost free of charge, to families with many children.

In the end of the survey, we asked the town representatives to write their thoughts on the previously mentioned issues and give possible suggestions for the recognisable and innovative role of the towns in housing policy.

Smaller towns do not see the responsibilities and capacities of their departments for social activity in the area of housing and housing policy. The representatives of a larger town that is more active in this area suggest the following: “We believe that currently the most acceptable model of housing construction is the combination of social housing and public rental construction. In that sense, we could use the loans through the Council of Europe

Development Bank – CEB. Local self-government simply must take initiative and start the housing construction. At that, the state would be responsible to ensure incentives and benefits through the tax policy.”

In a long comment, the representatives of a town with more than 40,000 inhabitants conclude: “There is no social housing or planned housing, nor is there a housing policy in our town. Housing in the town depends on private entrepreneurs and developer who are imposing their unrealistically high prices. Young families with lower incomes and the wider circle of the population in general can hardly afford an apartment under such conditions. After the public call, the town makes the priority list for the allocation of rented housing owned by the town. After they get such rented housing, users gain the status of protected tenants, without the possibility of any change, for example purchase of housing, if the living circumstances of the family change. The number of applications for the social housing is high, and a relatively small number of the families from the list actually get the apartment, since there is no housing construction, so families from the list get the apartment after the previous user/tenant dies or leaves the apartment for any other reason. The question arises why there is a public call if there are no apartments to allocate? Maintenance and management of town owned housing is a problem, because the apartments that are renting are frequently neglected and inadequate for living. Through the construction of housing for some kind of public renting, young families and persons who are now in the unfavourable housing status should be enabled to rent housing for lower prices than the ‘underground’ prices, which are determined without a contract and without a possibility to get housing allowance.”

## **Conclusions**

Housing programmes in Croatia supported by the state are intended for middle classes and support the households that purchase housing.

There is no national programme of social housing. This problem was left to the local authorities, as a part of local social care programmes. Although there are expressed and registered needs, a small number of larger towns invest limited funds in social housing construction. With such low rent, programmes of social housing construction are not sustainable.

The social housing issues belong into the wider area of social policy, which is fragmented, marginalized and deprofessionalised. On the other hand, priorities of the pension and health reform seem to question the legitimacy of the debates on social housing. Even, employment policy is not among priority of the government.

The policy measure of selling social housing, which is increasingly supported by the towns, would decrease the share of social housing in housing stock. Omnipresent policy of liberalisation and privatisation, which has deeply imbued the attitudes of average citizens, puts into question the very idea of the construction of housing that is not privately owned.

Possible resources for social housing construction could be found in the funds from the sale of public housing, and in favourable loans from the Council of Europe Development Bank. These projects primarily depend on the political will of mayors. The new system of direct elections of mayors, spring 2009, could put the social housing issues on the agenda. The available building land and capacities of municipal authorities to manage such projects hold down the development of local social housing project.

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