

Housing Studies, Vol. 13, No. 5, 697-711, 1998



Improved Management of the Existing Stock—The Case of Poland

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[Paper first received November 1996; in final form, May 1997]

ABSTRACT *This paper traces the changes which have occurred in housing provision and management in Poland during the period of transition to the market system. It suggests that the changes that have occurred have been greatly influenced by the environment within which the reforms have taken place. It claims that changes in housing management are restricted by historic attitudes yet have proceeded due to financial constraints imposed as part of the government's policy for restructuring the economy in the early 1990s. At the same time these restrictions have worked against the development of the housing market and investment in the existing housing stock. While the planned programmatic and legislative tasks in the reform of Polish housing are concluded, there is still a need for major shifts in the attitudes of consumers and providers to effect these changes.*

The Legacy

Three types of housing provision dominate in Poland: private housing; co-operative housing and communal housing. Communal housing refers to housing previously provided through the state and now owned by the local authorities (*gminas*). The predominant tenure in Poland has always been private owner occupation. This reflects the overwhelming tenure type in the rural areas where even today 40 per cent of the population live. In 1995 over 45 per cent of all dwellings were located in private houses, mostly single-family units. The second largest supplier of housing units are the co-operatives (27.7 per cent) through which most housing built between the mid-1960s to the present decade were developed. Of these, approximately 53 per cent were sold to their occupants (co-operative members after paying full construction costs get so-called limited property rights, i.e. they can fully dispose of their property with only a formal approval of the co-operative). Communal housing was the main source of housing in the urban areas from the period after the Second World War to the early 1960s and accounts for little more than 17 per cent of all units. However, in urban areas this source accounts for nearer 30 per cent of all units. Other sources of housing have included state factory housing. This is found in both urban and rural areas and accounts for about 10 per cent of the housing stock.

The majority of co-operative housing was managed by very large-scale co-operatives. These organisations were little more than state enterprises under another name and very few of the residents were either involved in the management of the stock or consulted. Cheap money was available for construc-

tion from compulsory savings schemes as well as different subsidies for both the construction and maintenance of properties. Being newer stock, maintenance costs until the late 1980s were relatively low compared with communal housing. While rents were expected to meet the management, operational and maintenance costs, subsidies were always available if required until the early 1990s. Housing co-operatives¹ which constitute an important sector of the Polish housing, should be considered separately. Co-operatives are governed by the Co-operative Act and are treated as part of the private sector. There have been many transformations within the co-operative sector, and there are now many different types of co-operatives.

Communal housing (i.e. local state administered housing prior to self-governmental reforms) was owned by the state and managed by city or regional based state enterprises. These not only managed the housing stock but all state properties, such as commercial, warehouses etc. and many were multi-purpose state companies undertaking open space maintenance, solid waste collection, street cleaning and other activities.

Residential rents were kept artificially low because housing was an integral part of the planned economy. Housing was supplied to meet specific labour requirements for planned industrial development, as such housing was perceived as being a citizen's right. Rent was directly related to size and the level of services available. A standard rate per square metre was fixed with increases of 30 per cent on that rate for each of the following: flush toilet, bathtub, hot water and heating. Conversely, reductions were made where the units were not connected to the main water or sewerage system, or when there was no lift in a building of five or more storeys.

Public utility user charges were added to the rent, but were, in most cases charged at a flat rate which either depended on the size of the unit (in the case of heating) or the number of members of the household (for hot and cold water). Few units had individual meters.

Management of communal houses covered, and still covers, the maintenance of the structure and common utility infrastructure, the cleaning of the common parts and open spaces, but does not look after internal spaces, except when the unit is vacated and turned over to another household. Internal repairs and maintenance are the responsibility of the tenant and a deposit is paid by the tenant on occupancy to cover the costs of the internal repairs needed after the tenant moves out. The rent to cover the management services was set by the central government and remained the same regardless of the location of the unit. Rents for communal housing bore little relationship to real costs or investment needs. Equal rents were established across state enterprise stock. State enterprises received subsidies from the central government budget for repair work.

With the financial constraints in the 1970s, some internal cross-subsidy was introduced with the use of operating surpluses from commercial properties where rents were not controlled or from the other activities such as solid waste collection. However, this was generally inadequate and the lack of funds required for necessary maintenance resulted in the deterioration of much of the communal stock over the 20 years before the change in the political system.

This lack of funds for communal housing also resulted in a shortage of housing. The number of units per 1000 people nationwide was 283 in 1988 and 297.6 in 1995, and only 303 in the urban areas in 1988 (320.9 in 1995), compared with 400 in the majority of Western European countries. Up to 40 per cent of all

communal units in some towns are shared by more than one household. Average occupancy for all housing in 1988 was 1.02 (0.97 in urban areas) persons per room, including kitchens, with 17.1 (16.8 in urban areas) square metres per person. Average housing conditions have since improved (0.96 persons per room on average, 0.91 in urban areas and 18.4 square metres per person in 1995), but still the co-habitation of two households in one dwelling remains relatively common.

With rents fixed by the central government (up to the end of 1994) and a lack of accountability by management to the tenants, there was little incentive for management to provide improved levels of service. Management was bureaucratic. The state housing enterprises undertook all their own maintenance, repairs and cleaning, using in-house teams and equipment. Rigid working practices were developed which allowed for little flexibility across tasks. Task-related time standards were set at the national level. In comparison with Western European public housing agency task-times, Polish timed allowances were about 50 to 60 per cent longer (Marlow, 1994). Comparing standard working practices, the number of tasks undertaken per day, suggests that the productivity of Polish housing enterprise workers is approximately one-third to one-eighth that of their UK counterparts (Blunt, 1993).

The communal housing stock consisted of two types of housing: the purpose built and the requisitioned (i.e. dwellings taken into public administration without the approval of their owners). The requisitioned housing tended to be older, being housing that was built before the 1940s which was requisitioned either to meet the critical housing shortages that followed the Second World War or vacated properties used to house new immigrants to areas previously occupied by ethnic groups affected by major international boundary changes.

Government Policy during Transition

Changes following the collapse of a centrally planned economy should be seen as a process. The restructuring of the housing sector is far from complete today. Many of the changes that took place initially, during the period of the first Solidarity Government, were inspired by the enthusiasm for a democratic free-market system which few fully understood. The first changes that took place were the result of the new financial reality in which the co-operatives and local government found themselves. They were made without adequate legal or financial structures being in place. Indeed, the changes occurred without a clearly stated policy.

The Local Government Act (dated 8 March 1990, Statute Journal No. 16, item 95) gave the local government unit (*gmina*) wide ranging responsibilities. Article 6.1 states:

The scope of activity of *gmina* shall embrace all public matters of local significance that are not reserved by law for other units.

Article 7.1 continues:

A *gmina's* local tasks include the satisfaction of the collective needs of the community. In particular, the local tasks shall concern matters of:
(...) 7. municipal housing construction.

Chapter 6 of the Act sets out the system of financing for local governments.

Article 54 identifies the sources of revenues, including local taxes and fees and a general subsidy from the central government. This is "allocated to *gmina* on the basis of objective criteria ... laid down by a separate Act" (Article 55). Article 57 states simply that "Budget expenditures shall not exceed revenues".

The so-called Communalisation Act (dated 10 May 1990, Statute Journal No. 32, item 191) transferred the assets of the state companies operating on a local base and local services, including housing and public utilities, to the local authorities. This Act created municipal enterprises from the larger, regionally based state enterprises. This was a temporary expedient and the Act obliged the *gmina* to determine the final form of their enterprise management. This could range from a 'budgetary unit' (*jednostka budżetowa*) which is in effect a line department, without any separate powers to enter into contracts on its own, a 'budgetary enterprise' (*zakład budżetowy*) which has these powers but is still financially accountable to the treasury of the local authority, or a limited company (*spółka*) with more than one share, but which may still be owned by the *gmina* as the single shareholder.

The local authorities, therefore, inherited the responsibilities for housing, while subject to tight budgetary control. Housing was only one of a huge range of tasks of these local governments. The experience of the early 1990s proved that housing, due to the lack of institutional and financial innovations, was one of the most difficult areas for local government to deal with. Studies showed that the organisational and legal transformations of municipal enterprises were implemented rather slowly (Blunt, 1993), and the weakest points were:

- lack of logical relations between the organisational and legal form of the enterprise and its specific functions;
- short-term day-to-day reactive management.

At the same time some positive experiences were disseminated and local governments took care in making transformation decisions and became more interested in increasing efficiency and improving the quality of services (Aziewicz, 1993).

The structure of municipal capital investments indicates that its most important roles are municipal services, housing and equipment for other services such as fire fighting, surveying and spatial planning, and agriculture. In 1991 these expenditures were equal to 52.04 per cent, 14.87 per cent and 9.07 per cent respectively (Gilowska, 1993).

It was only in February 1993 that a policy was clearly stated for the housing sector in the policy document entitled 'The Basic Principles of Government Housing Policy' (issued by the cabinet of Mrs H. Suchocka). The basic principle of the policy was that it should be based on careful state intervention which focuses "on such methods of public assistance which increase relative accessibility of housing, at the same time maintaining the proper functioning of market laws". The policy sought "a socially acceptable basis for the housing market economy". The constraints of the lack of capital, relatively high construction costs, the lack of specialised financing institutions and a state budget running at a deficit were all recognised. Yet it clearly stated that responsibility for implementation of the policy for housing and public housing in particular, lay with the local governments. Similar ideas and policies were supported by the next government (a coalition of the Left Democratic Alliance and the Polish Peasants Party) in its housing policy programme. The struggle between central and local

governments concerning the shortage of finance to cover local responsibilities grew along with the progress of the policy of socio-economic transformation and rigorous central government policy to control and limit the budgetary deficit. Local public financial control was also effective and almost all municipalities show budget surpluses at the ends of their financial years.

It is only since 1994 that the major proposals included in 'Basic Principles of Government Housing Policy' have begun to be a statutory reality. Several new Acts covering housing investment and maintenance were passed in 1994 (Act on Housing Unit Ownership, Act on Lease of Dwelling and Housing Benefits, Act on Transfer of the State Enterprise Housing Stock). The basic policies set out in the period of the first post-communist administrations have been adhered to.

Reforms in the State and Communal Housing Sectors

The Early Years

The first period of the process of change was one during which newly created democratic institutions were struggling with learning their roles and the use of the powers vested in them. The Local Self Government Act gave the local authorities, as legal entities, the power to collect taxes and fees, to enter into contracts and placed on them the responsibility to undertake the 'municipalities own task', including the 'collective needs of the community' for housing.

Three major constraints on action were in effect at this time. First, the rate of inflation rapidly passed 100 per cent per year in the first years of the Solidarity administration, peaking in 1990 at 586 per cent and falling to 30 per cent by 1993. Commercial interest rates matched these figures and still stood at around 25 per cent in 1996.

Second, local governments were constrained in their spending by the size of their revenues from specific sources, such as a share of locally collected income and corporation taxes, land tax and various other taxes and fees. Further, the tax redistribution favoured the rural areas as the repayment of the share of locally collected income and corporation taxes reflected the population size and not the amount collected locally. The revenue available for the urban *gmina* to spend was, therefore, limited and also tended to be devalued due to the impact of inflation and delayed transfers from the central budget. Hence urban areas with a serious backlog of critical structural repairs needed for its ancient housing stock, effectively received less than the rural areas with very much smaller stocks of communal housing.

Third, the level of unemployment was high and continued to increase until 1995. Unemployment has been decreasing recently although this might be connected in some degree with the change of the legal definition of an unemployed person. In July 1996 the number of registered unemployed was 2 446 000 people (1 427 000 of them women), i.e. 14.1 per cent of the civil labour force (against 15.3 per cent in July 1995).²

The Workers Councils in each local authority company remained strong, resulting in a hesitation by many local councils to push through the restructuring of the state enterprises. The law stated that enterprises in profit could only be restructured with the compliance of the employees, whereas those that were in debt could be liquidated. However, even when that was considered necessary, employees had to be suitably compensated. Only when termination was volun-

tary was it unnecessary for the *gmina* to pay compensation. It was this consideration which determined the form of restructuring favoured in many of the *gmina* housing enterprises. The potential for conflicts between different roles of local governments in a transformation processes are apparent.

Other factors also inhibited the freedom of the *gmina* to follow through the changes expected. First, the Communalisation Act had also created new municipal enterprises for the public utilities. These companies, whether restructured, or not, found themselves obliged to be financially self-reliant. In the majority of communal houses neither hot and cold water and sewerage, nor communal heating are metered on an individual unit basis. The contract for the supply of the communal services and payment is between the public utility and the communal housing enterprises. The amount that can be charged by the housing enterprise to the unit occupant is fixed by government, based on a scale dependent on either the floor area or the number of persons in the unit. Hence, communal housing enterprises often found themselves with the obligation to subsidise the tenants. Further, the enterprise is also responsible for the debts of non-payers. With the utility companies having a local monopoly, there was little incentive for them to improve efficiency, (unless the owners of a limited company put pressure on them to lower prices).³

Thus any rent surplus over the requirement to meet administration costs is, at times, devoted to subsidising the residents' use of utilities, rather than being invested in housing repairs and improvements.

Second, the *gmina* retained residual responsibilities for those buildings in which there still remained a communal unit tenant. The law obliged the housing enterprise to maintain the building and to ensure the structural quality of the building. Thus even when the other residents who had bought their units were unwilling to invest in major structural repairs, the *gmina*, theoretically, understood that this responsibility still remained with them. In this respect the newest legislation—the Act on Housing Unit Ownership—may not end the responsibility problem. A strong tendency to shift the burden of former negligence to repair the stock to the *gmina* can still be observed. And the amendment of the above mentioned legislation, unfavourable for *gmina*, may occur.

Third, accounting systems used by the local authorities and their enterprises did not include the revenues from the housing or the activities of the multi-purpose enterprises as 'income'. The accounts only recorded the subsidy provided. The enterprises kept their own books. In cases where there were 'surpluses' from the rent received for the commercial premises (for which the *gmina* is free to set the rents) or from the operation of the non-housing functions, these were not included as income on the *gminas'* books. Instead, they were part of the accounts of the enterprise. Surpluses such as these were easily absorbed either by improving the properties or by the purchase of capital equipment.

With the disincentives for radical restructuring and the need for most housing management enterprises to continue to be subsidised from the *gmina* budget, during the period to 1994, the majority of local authorities opted for the budgetary enterprise form of organisational structure. However, for those that remained multi-purpose enterprises which included some 'profitable' activities such as solid waste collection or joinery, the enterprise was able to be financially self-sufficient. In some of these situations, there was pressure on the *gmina* to split the two operations. This pressure often came from the managers of the enterprise who wished to take over the profitable activities. In these cases, the

manager saw an opportunity for a management buy-out, or rather the contracting out of the management services, under terms very favourable to the management. The argument that the contract should not be put out to competitive tender but be by direct appointment, was supported by the expectation that this would minimise the cost to the *gmina* as such an agreement would release them from the obligation to pay compensation to the labour force.

In a few cases, the *gmina's* Executive Board took the lead in pressing through greater privatisation of management. All managing units at a local level have been privatised in Białystok. In Kraków, for example, one of the administrative districts was encouraged to establish itself as a private management company. While the purpose of this may have been largely symbolic, it represented an effort to introduce an element of competition in an area where none previously existed.

While no other supporting legislation was in place, the main pressure on the majority of *gmina* for change was for financial constraint. Consequently, the first changes were in the contracting out of services. As a first stage, the maintenance teams were encouraged to become independent contractors. For a small one-person company, the tax laws provide low, flat rates of tax. By offering the workers guaranteed contracts for the first year of operation, the *gmina* could save paying the ex-employees any compensation while preparing for a freer more open tendering system to be instituted later. Initially, therefore, these contracts did little to lower unit costs. In those cases where the labour force had been reduced, savings in some cases were also not realised, due to the terms under which the contract was bid and let. Few in either the housing enterprises or the *gmina* administration had the skills to prepare adequate specifications to ensure improved efficiency and better value for money. In some cases, the contracts were let on the basis of the task-times required for each job as determined in the national work-task time criteria. Hence the *gmina* found that the work let under contract provided zero savings.

The financial constraint provided the incentive for many *gmina* to encourage the sale of units. The practice in different *gmina* varied widely, from those that offered very significant discounts, to others that offered subsidised loans, to those that believed they should retain most if not all the communal housing stock. In most *gmina* there was a reluctance to sell the commercial areas as the operating surplus from these was seen as necessary to subsidise the repairs and maintenance of the housing units. With rents so low, many tenants were reluctant to purchase as they saw no financial advantage in doing so. For the *gmina*, the residual responsibilities for those tenants still renting units within the building diminished the advantages of the sales. Only when those units were free-standing houses was the *gmina* free of further obligations. Therefore, the privatisation of communal units is very patchy, depending on the perceived advantages to both parties. Without the necessary legislation to clarify the legal basis for the transfer of responsibilities, the majority of *gmina* felt inhibited from pursuing this policy. The most recent data show that in 1995 14.9 per cent of the communal units were sold to the tenants. This suggests the rather slow increase in privatised units from 7.3 per cent in 1990 to 9.3 per cent in 1993.

During this first period, the government's policy towards co-operatives followed a similar pattern. First, there was a need to break up some of the very substantial housing monopolies which dominated some towns. Second, the co-operatives were forced to become totally self-sufficient in terms of all man-

agement, maintenance and repairs costs. This resulted in a large increase in rents and service charges. The burden of the increase in construction costs and the real interest rate on housing loans left many co-operative members unable to buy the new housing units. As a result, the massive co-operative housing construction sector ground to a halt. Only the smaller co-operatives, established to build houses for people with sufficient savings to provide a substantial deposit and with a large enough declared income to enjoy the full tax benefits available to those building new housing units, were able to join these schemes.

The Period of Policy Implementation

Despite the change in government in 1993, the policy set out in 'Basic Principles of Government Housing Policy', remained largely unaltered. While it has taken more than three years for the main proposals to become law, the second stage of reform could be said to have started with the passing of the Lease of Dwellings and Housing Benefits Act (dated 2 July 1994, Statute Journal, No. 105, item 509).

One of the main platforms for reform was a change in the formula for rents. Rents for communal housing were to be gradually increased, based on a percentage of the current replacement cost of constructing a unit. Rents for requisitioned housing would be subject to negotiation between the true owner and the sitting tenant, after an intermediate period of 10 years. Rents until the year 2004 would be regulated on the same basis as communal rents.

Under the Lease of Dwellings and Housing Benefits Act, the central government retained control over the maximum rent by fixing the maximum amount chargeable at 3 per cent of a replacement cost per year. However, it gave some freedom to the local authorities to determine their own criteria for establishing the actual rent levels within their stock. Further, they separated out the cost of services from the basic rent used to cover operation and maintenance costs. It also introduced the principle of targeting of the poor into the public rental subsidy system, by the introduction of housing benefits which are applicable not just to the tenants of communal housing but also to users of both private and co-operative dwellings. However, it also made the local authority responsible for paying the benefit. The local authority could then apply for support from a central budget fund.

Previously, the general formula for identifying those who qualified for social benefit included very limited, in terms of affordability and quantity, aspects of housing expenditures.

The share of housing allowances covered by *gminas'* own resources have always been the subject of arguments between government and communities. The Act says: "Local authorities obtain specific grants from the State to co-finance the task ... (. . . i.e. housing allowance) ... within the limits established for this purpose in a Budgetary Act" (Article 45). The distribution of grants between local authorities depends on the total demand for allowances, the revenues over communal housing, and the average basic *gmina* tax incomes per capita.

It means that the implementing regulations are quite restrictive, penalising local authorities that have higher than average revenues for the size of *gmina* by placing on them a greater or even the total burden of the payment of all the housing benefits. Further penalties are imposed if the *gmina* exceeds the maxi-

imum rent. Faced with tenants used to heavily subsidised rental systems and with the restrictions mentioned, few authorities charged anywhere near to the maximum rent increase possible. Thus this did little to 'encourage' tenants to buy their apartments.

The Housing Unit Ownership Act of 24 June 1994 provided the second necessary foundation for meaningful reform of the system. It provided the legal basis for transferring responsibility for the management to the unit owners. The *gmina* became by law a joint owner, subject to the will of the majority of owners. While this put the *gmina* into a position where it had dual responsibilities to both the communal tenant and to the condominium association (*wspólnota*), it provided an opportunity for groups of new owners to manage their own property and to determine their own priorities for expenditure. It therefore introduced the potential for competition, thus theoretically challenging the management monopoly previously held by local communal housing enterprises. The Act made it obligatory for all dwellings with 10 or more units in mixed ownership to create condominium associations to determine how their properties should be managed and to prepare budgets to cover management and maintenance costs and a fund for major repairs. It set out the formula for the voting rights of individual owners and for levying the charges on each owner to meet all the costs identified in the budget.

An important factor enabling the transformation of the state enterprise housing was the totally new legislation allowing the owners, i.e. the state enterprises or joint stock companies with 100 per cent of shares owned by the state, to transfer their housing property (buildings, plots and infrastructure) to other entities (Act dated 12 October 1994 on the Transfer of the State Enterprise Housing Stock). The transfer was allowed free of charge between November 1994 and November 1997 under very basic conditions: the copy of the title deeds confirming the property rights over the transferred assets; the technical documentation of construction or stock-taking of transferred units; and information on improvements and modernisation carried out in the previous 10 years. The rights of new owners are diversified. While the co-operative or limited company may take over the property superfluous to the needs of the enterprise, the local government cannot refuse to take the unwanted property (with the exception of former state farm housing). Tenants and owners of purchased individual flats keep all their rights. Thus the tenants are secured by the terms of the Act on the Lease of Dwellings and Housing Benefits, and the Act on Housing Units Ownership applies to individual owners. By the end of 1995 there were 10 487 state enterprise buildings subject to the condominium law, of which 47.1 per cent were buildings with a majority of enterprise owned units. The factories retained the management responsibilities for 57.7 per cent of all the buildings, 31.9 per cent were managed by 'other' entities, and 10.4 per cent have functioned without any management. There is no cross country data on the transfer of the ownership of the state enterprise buildings to other legal bodies. In recent years a strong tendency towards privatisation has been observed; 96 000 of buildings owned by factories in 1994 were sold to private persons and in 1995, 71 000. About 100 buildings a year are transferred to private persons who were the former owners.⁴

In practice the reforms have had less impact than might have been expected. First, few people had either the time or the interest to become involved in the management of their building. After decades of being inward looking, of having

no responsibility and hence no interest in what happened beyond their front door, it was hard to think of responsibilities for the communal elements of the building.

Second, few have the skills to become property managers. This problem is slowly being overcome with a number of alternative training courses becoming available for the management committees and administrators of the condominium associations.

Third, the transfer of units into the private sector had been implemented in practice long before the law on housing ownership. While what was transferred was clear, the interpretation of the law by the *gmina* was often too narrow. The units in multi-unit buildings are transferred with a right over a fraction of the land on which the building stands equal to the share of the total utilisable space that the owner owned. Before the law on home ownership was passed, this was often interpreted as just the land on which the building stood. The land required for access, or for the surrounding open space was not considered, for the service charges levied by the *gmina* covered all maintenance costs. The question of relating costs directly to the individual unit or individual building never arose. After the Act, it was obligatory that the charges levied should relate directly to the costs connected with the management and maintenance of the particular building. Maintenance and the cleaning of the access to the building and the surrounding open space became a matter of contention between the *gmina* and the condominium association in a number of localities. It is therefore seen as simpler to let the *gmina* housing management enterprise continue managing the whole area.

The strongest reason, however, for the slow development of competition in the field of management has been the fact that the *gmina* still remains the majority unit owner in most buildings. This is changing, but only either where the *gmina* has taken a pro-active role in the sale of the units to the tenants, or where the tenants perceive the longer-term advantages of being owners within a free market. In a few places, such as Kraków and Warsaw, the housing market has developed. Units bought by the sitting tenants are now being sold by the original tenant-owners at a considerable profit. However, this embryo of a market for housing is inhibited by the lack of a supportive financial system. As mentioned, the sole source of funding for the purchase of communal units are either savings, privately arranged loans from banks or credit from the *gmina*. The latter is not available to second owners of units and commercial loans are usually only available on a short-term basis at the high commercial rates of interest.

After 1993 government documents dealing with the housing policy identified three types of housing finance. These were: mortgage loans for the high income group; sub-market rate loans from contracted savings schemes such as savings and loans institution for the middle income group, and funds from a National Housing Fund to develop social rental housing for the poorest group. These proposals were in addition to a number of tax incentives introduced largely to stimulate the construction sector (preferential VAT for housing construction, income tax deductions). However, none of these proposals were designed to meet the needs of second-time buyers. Only the tax incentives available to those carrying out repairs and improvements might be considered an incentive for this group. Recent developments in the market for housing credits show the tendency towards the unification of primary and secondary housing markets. Hence the market for housing is still far from fully developed.

The National Housing Fund was established by the Act on Supporting the Housing Construction (October 1995). This fund is designed to provide finance primarily for rental housing. The Act establishes the right of *gmina* to borrow from the fund at a rate fixed at 5 per cent below the prevailing commercial rate for, amongst other things, the construction of housing for rent. *Gmina* should establish a TBS (Social Housing Association) which is to be a non-profit company. The housing development is to be of good quality rental housing, available to those who have no housing at present and are willing to provide a deposit of 10 per cent of the value of the unit. The law also establishes the TBS with the right to manage the buildings and to take on the management of other buildings which are not owned by the TBS and to charge for this service. The TBS as non-profit companies are exempt from tax and so could, in theory, offer very competitive rates for management. Indeed, in some *gmina* the whole of the communal housing stock may be transferred to the management of a TBS.

Experience of Condominiums

In practical terms the institution of the housing condominium has existed only since January 1995. There were some obligations to be fulfilled in the six month *vacatio legis* following the passing of the Housing Unit Ownership Act by the previous managers (mostly *gmina* enterprises) to encourage the initiation of condominiums. It should be stressed that Polish Civil Code and the Code of Civil Procedures fully acknowledge the notion of joint ownership. It was rather the enumeration of necessary procedures, the detailed specification of duties of each party as far as the decision-making was concerned, the clear expression of responsibilities for the future development and the sequence of penalties in cases of default in the duties which was needed in this legislation. The duties of the owners were addressed to both the private owners as well as the *gmina* as an owner of rental units.

However, current experience with the application of the new law as well as the continuing struggle over the burden of the past, specifically the neglect by the owners of their responsibilities that has resulted in the poor state of many properties, might necessitate amendment to the law. A number of issues have arisen related to banking procedures, such as problems of condominium association (*wspólnota*) as non-legal entity opening the bank account, the *gmina* acting as a loan guarantor for *wspólnota*. A favourable ruling for the National Bank of Poland is being sought.

The most common form of condominiums are those which combine communal rental units and private flats. There are at least three other cases regulated by the above mentioned Act:

- condominiums in multi-family buildings jointly owned by the state enterprises and individual persons;
- condominiums in multi-family buildings owned exclusively by private persons who have bought the dwellings from the developer;
- condominiums in joint investment on a single plot of building land which ensure the rights of future owners of each dwelling.

Statistically, we can describe the condominiums connected with the local authorities as follows:⁵

- out of 201 802 communal buildings, 137 549 (68.2 per cent) of these are solely owned by local authorities (rental);
- out of 64 253 buildings jointly owned by local authorities and private persons the majority, namely 86 per cent, are buildings in which the dominant share is communal property, while in only 14 per cent of buildings does the majority share belong to individual persons;
- the majority, 95.4 per cent of jointly owned units, of condominiums are managed by *gmina* (communal entities) while other institutions are responsible for only 4.6 per cent of buildings.

Regional differentiation is visible: the highest share of jointly owned communal buildings can be observed in Kraków voivodship (69.5 per cent) and Warsaw voivodship (50.4 per cent) while the lowest proportion hardly exceed 10 per cent (Konin 11.6 per cent, Piotrków 12.5 per cent).

Several attempts have been made to analyse the functioning of condominiums or rather the implementation of the legislation. Authors of a very detailed study (Bonczak Kucharczyk *et al.*, 1996) based on questionnaires, opinions and information from 128 local governments covering representatives of the communes, private owners of dwellings, representatives of the housing management enterprises and local functionary defined a very broad spectrum of problems. The most commonly identified and considered likely to be the cause for future problems was identified as "lack of knowledge on understanding and adaptation of the law". This resulted in certain damage during the preparatory stages and at the beginning of 1995 when the condominiums should have been established. During the preparatory stage (second half of 1994) even the bigger *gmina* or cities were unable to follow the logic of the new solutions. The most common fault was the lack of detailed financial balance sheets and technical documentation for each particular building.

Even in the first half of the 1996, more than 83 per cent of communal administrators asked by the researchers made several practical mistakes which proved their failure to understand the Act on Housing Unit Ownership. Individual owners questioned immediately after the passing of the Act did not understand the main points of the legislation (95.5 per cent) and the majority were even unaware of the existence of the new legislation. This 'low skills' measure changed dramatically at the beginning of 1995 after the first meetings of owners (obligatorily organised in a first quarter of that year). However, the dissemination of misinterpretations was still widespread (68.5 per cent) and knowledge of the Act and its implications still should be described as a very rough and general.

The consequences of the fact that the preparatory time of *vacatio legis* was completely lost cannot be overestimated. Article 40 states:

state or communal organisational units carrying the management tasks on the basis of the former laws over the common property part are then obliged to prepare for all jointly owned immovable parts the records enabling at least from October, 1, 1994 the establishment of the cost and revenues for each common property part and to inform co-owners not later than November, 30, 1994 on changes in the form of management and responsibilities in bearing its costs, introduced by this law.

While the legislation proposed relating rents to actual costs for each building, when the buildings remained under the management of the communal housing management, the charges were based on the average cost per square metre for all the housing stock. Among the responses, 66 per cent show that the *gmina* did not follow the time schedule. Neither did the communal housing management follow the procedures laid down in the Act, but announced an increase in the rent without explanation and without holding a meeting of the condominium members. But the lack of understanding was not limited to the communal housing management. For 91 per cent of individual owners questioned, the first knowledge of the Act came in letters from the communal housing managers. The majority of owners (78.5 per cent) declared they did not understand the new situation. Currently efforts are being made to resolve many of the initial practical problems of the past years. Some societies have been established to advise and help, on a mutual aid basis, with the whole range of problems with condominiums.

The individual owners' financial obligations are paid in advance, then recalculated at the end of the financial year. The advance payments were found to have been set at different levels. In 9 per cent of observed cities (12) the prepayment was more than 0.8 PLN/square metre while the average advance payment was equal to 0.63 PLN/square metre. It seems that only where the obligations are highest does there appear to be any chance to implement a proper policy of conservation and repairs. However, in many cases the item 'repairs fund' was omitted. At the end of the first year it was recognised that in only 26 per cent of the cities had costs been planned properly while in 41 per cent of the cities the initial payments were too high and in 37 per cent too low.

Conclusions

The present situation in the housing sector in Poland should be seen as a phase in an ongoing process that is developing due to specific legislative changes but also changes in the economic and social environment. However, the changes that have taken place go only part way to creating a market-based system for housing provision and management.

What lessons can be learned from the Polish experience on the preconditions required for adequate investment in new and existing housing, and what else is needed to ensure efficient management systems in rented housing?

The past six years have seen major changes in the perception of housing. While many still see it as a 'right', it is now more commonly seen as a 'good' to be purchased. The main ingredient that is still missing is the continuing lack of purchasing power. This should be seen within the context of the society in the period of adjustment. The main tool available to the government to get the economy into line with the market economy was to control inflation through the tight regulation of government spending. Hence, in a period of rapid inflation, wage levels of public servants, state companies and those reliant on public support (i.e. pensioners and those on welfare) were increasing at a rate far below that of inflation. From 1994, tax relief was removed from the interest paid on mortgages. Tax relief was switched to actual investment in housing development by individuals. Interest rates were well above inflation levels and so loans were unattractive to those who might otherwise rely on them. In such a situation banks found little incentive to develop mortgage finance systems, and the public

had little interest in making use of such loans. Mortgage systems for new house building being developed through the Budbank with the World Bank, USAID and EBRD funding have been slow to take off as they must be provided at real cost terms and allow the handling banks a mutually agreed mark-up to cover administration costs, default risks and ensure a profit. Presently, the only new system of housing loans available to the quasi public sector for new house construction are those provided through the Bank of National Economy (BGK) for the Social Housing Society (TBS) at subsidised interest rates. There is a question of whether sufficient funds will be available once the demand increases.

Investment in existing housing is less developed. People living in older, decapitalised stock, including those who took advantage of the opportunity to purchase communal housing units at 'favourable' prices, have faced extreme difficulties raising funds for necessary capital repairs and improvements. For the past five years the legislation on the revitalisation of urban areas has been under discussion.

Government policy for the re-distribution of resources between *gminas* means that the funds available from locally generated tax revenues favour rural areas with a relatively small communal housing stock while limited funds are available to the urban areas where the communal housing stock makes up over 30 per cent of the total housing provision. Further, as has been mentioned earlier, the funds available to support the housing subsidies are diminished or unavailable to those *gmina* that have an above average per capita income. Because these authorities are responsible for meeting the full cost of the housing subsidies, not only for their own tenants but also for the tenants of co-operatives and private tenancies, they have a reduced capacity to invest in other capital works, and in their own housing stock in particular.

However, it could be said that it is the financial constraints imposed by the central government that have most influenced the changes in communal housing management that have been and are being introduced by local governments. But these changes have been forced on the *gmina* rather than being consumer-led.

On the supply side, already there exists a wide range of alternative sources of management. Apart from the housing enterprises of the *gmina* there are: the management organisations of the co-operatives; TBS (Social Housing Association); the condominium associations; the housing management of industrial housing units which have, in some cases, set themselves up as housing management companies during the period when all the assets of the company were being liquidated; and commercial property managers. In addition to these are private property management companies formed by the senior management of the housing budgetary enterprise. However, very few *gmina* have introduced alternative forms of management.

This problem has its origins in the perception of housing as a right. The *gmina* is now generally perceived as a supplier of the last resort, for the poorest and neediest in the population. Housing management is an obligation, rather than a service offered by the local authority. Local authorities have not traditionally perceived the tenant as a customer. Even today, with the legislation giving rights to condominium owners, the managers working for local government continue to see their role as unchanged. As has been pointed out, much of the problem lies in the lack of understanding by the condominium owners of their rights. Hence there has been a lack of demand and enforcement of rights. However,

while there are signs that more and more condominium (*wspólnota*) are taking on their responsibilities, the same attitude still prevails almost universally towards the tenants of communal dwellings. The next stage in the management revolution will be when the tenants begin to make their voices heard and so demand improved management services and value-for-money. However, there is no sign of communal housing management developing such an approach nor is there any legislation proposed to force this change.

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Notes

1. There were 2718 co-operatives maintaining the housing stock in 1995, of which 57.6 per cent consisted of 200 or less dwellings and 1.9 per cent consisted of more than 10 000 dwellings. Average monthly payments for the use of co-operative dwelling were the highest among all sectors: 2.65 PLN per 1 sq., whereas in communal buildings 1.19 PLN. This is due to the lack of a replacement fund within the structure of payments for communal dwellings (0.47 PLN/sq. in co-operatives) and higher average costs of solid waste disposal lifts and the 'others' in the co-operative sector (*Housing Economy in 1995*, Central Statistical Office, Warsaw, 1996).
2. It is worth stressing that unemployment varies greatly from region to region (Slupsk voivodship, 27.0 per cent; Koszalin voivodship, 24.9 per cent; Warszawa voivodship, 4.9 per cent; Poznań, 6.8 per cent). A significant proportion of the registered unemployed (48 per cent) have lost the right to unemployment benefit.
3. In many *gmina* the sole owner is the *gmina*. The *gmina* can then set the price for the service provided and 'force' management to improve efficiency. This did happen in many cases. Another motivation for the company to improve efficiency is its desire to attract investors.
4. A special category of state enterprise housing were those that formerly belonged to the state farms. In the spring of 1994 the State Rural Property Agency (Agencja Wlasnosci Rolnej Skarbu Panstwa) took over all the assets of the state farms, including 328 298 housing units. As of December 1995, only 994 had been transferred approximately 720—to the rural *gmina* and approximately 270 to companies as an asset. Of the rest, the majority, 173 226, had been sold for nominal sums to former tenants or users and 154 078 remain with the Agency. Of the units sold to private ownership, 3600 independent self-managing condominiums have been formed, while the Agency is attempting to encourage the other 15 600 condominium units to form management co-operatives.
5. Data after: *Housing Economy in 1995*, Central Statistical Office, Warsaw, 1996 (in Polish).

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