Mind the Poorest: Social Housing Provision in Post-crisis Romania

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Abstract: This paper reflects on recent social housing developments in Romania. It understands social housing as rental social housing and affordable housing, a differentiation that is not made at the national level and introduces a sub-type of affordable housing, which is little documented in current research and is here termed ‘self-help affordable housing’. The paper looks at the legacy of socialist housing and social housing before and after the crisis. It makes an important claim that needs further investigation: current social housing provision in Romania overlooks the poorest households. This has implications for the country’s political leadership; the capacity for financial and institutional innovation; and wider strategies for policy integration.

Keywords: social housing; Romania; East European Housing.
The legacy

Romania’s current housing system is shaped by the legacy of previous socialist policies, but also by rapid changes since 1990. Socialist housing policy was predominantly driven by state provision. Housing was regarded as a social good and its allocation, via local authorities and employers, was part of the social wage (Hegedus et al. 2013). Poor-quality mass housing was built throughout the 1950s, 1960s, and 1970s, during the country’s rapid industrialisation. This process was supported by a state that controlled and owned most of the land. The state also provided infrastructure and had relatively risk-free access to finance. Housing was mainly built in urban areas, but also pepper-potted across the countryside and smaller settlements, in large estates of 3-5 storey buildings in the 1950s, and 11-13 storey buildings in the 1960s and 1970s (Panaitescu 2012).

The allocation of state housing during this period promoted a socio-economic mix, seen as an important tool for building an equal society (Kahrik and Tammaru 2010). However, the socialist housing allocation was not an entirely fair and equal process. Certain groups, such as working people, young married couples, families with children, and people with degrees, were favoured over others, including the unemployed, single-parent households, and Roma (Turnock 1990). The former groups were more likely to be housed first, and/or get larger and/or newer accommodation, in better areas and/or buildings. Thus, socialist housing allocation was biased towards multi-member and ‘in employment’ households, and higher social status associated with higher education and/or occupation, but also party affiliation (Szelenyi 1993; Turnock 1990; Hegedüs et al. 2014).

Social housing, as we understand it today, did not have a rationale to exist in socialist Romania. The socialist market lacked competition from other housing agencies and provided for everyone, being subject to single-party control, which broadly controlled housing allocation (Hegedüs et al. 2014). This does not mean that there was no need for social housing, as some Romanians fell short of meeting the criteria for being a ‘proper’ socialist citizen. They were the unemployed, Roma, and people who had children outside the wedlock (Frontul Comun pentru Dreptul la Locuire 2014). So, state-provided housing was allocated ‘on the basis of “merit” rather than need’ under socialism (Hegedüs et al. 2014).

Romania’s current housing stock is in poor condition and in need of urgent renovation. It is also old and the most overcrowded in Europe (Turcu 2017). There is no coherent framework for national housing policy and no major housing reform has taken place in Romania since the collapse of socialism. This has a twofold explanation: housing policy has not been a priority during Romania’s EU accession; and the country has been confronted with frequent changes of responsibility within the civil service, but also with tempestuous changes and imbalances in political power.

Current housing policy decisions in Romania have an ad-hoc character and are part of day-to-day political initiatives; they also lack follow-up and the gathering of evidence for them (Turcu 2016). This is an approach documented elsewhere in the region: policy and decisions are only coordinated in a loose way as part of a ‘trial-and-error’ or ‘scrambling’ approach (Tsenkova 2009). However, two main housing policy developments have been evident in Romania since
1990: the residualisation of social housing as a result of mass privatisation; and an overt fostering of home ownership (Turcu 2017).

The residualisation of social housing in Romania was kick-started by the privatisation of socialist housing in the early 1990s. This happened across Eastern Europe and was driven by three factors: post-socialist states sought to reduce public expenditure and raise income from sales; there was a genuine belief that markets can promote better housing provision than the state; and it was assumed that home ownership would break the ‘state dependency culture’ and ‘encourage individuals to take more responsibility for themselves and their families’ (Clapham et al. 1996, 9). Homes in Romania have been sold to ‘sitting’ tenants since 1993, when a one-bed flat in Bucharest could be purchased for 100 USD, the equivalent of one average monthly salary (Adevarul 2010).

This ‘give-away’ privatisation happened at a baffling speed in Romania as a result of galloping inflation and legislation passed by the government (Chelcea 2006). However, while other Eastern European countries imposed a time limit on privatisation, in Romania the deadline was extended until 2013 (Hegedüs et al. 2014). The state also withdrew almost completely from the financing and construction of housing in 1990, from 8.7% annual public investment in 1989 to a mere 1% or less in subsequent years (Alpopi et al. 2014). As such, state-owned housing, estimated at about one-third of the stock in 1990, declined to a tiny proportion in the space of a few years and to an estimated 2.5% by 2016 (EU-SILC data).

A preference for home-ownership in Romania was something already noted before 1990. In the 1960s a socialist middle class started to emerge and the socialist state began to encourage private home-ownership, indirectly via various mortgage scheme, and at the expense of other forms of housing tenure. Renting became gradually an undesirable tenure, associated with precariousness, low-skilled workers, and Roma (Vincze, Rat 2013). Building on this, the privatisation of state-owned housing has institutionalised this preference even further, without any discussion about the long-term risks of the super-home-ownership model or, indeed, equity implications for those left outside the give-away privatisation, often poorer households. Home-ownership increased in Romania from 67.3% in 1990 to over 93% in 1993 and 96% in 2016 (Eurostat-SILC 2017). Romania has at the moment the highest home-ownership rate in Europe.

The backdrop to the crisis: rental social housing and affordable housing

A small amount of social housing has been built every year in Romania since 1990, in stark contrast with other post-socialist countries (i.e. Czech Republic, Slovakia, Slovenia, Serbia and Poland), where the pre-crisis output of social housing had been significant (Hegedüs et al. 2014). This is explained by social housing not being a priority of Romanian social policy and by the sharp decline in funding for social housing since 1989. Funding for social housing, as a share of public expenditure, declined from 8.7 per cent in 1989 to 0.8 per cent in 2000 (Cosima-Rughinis 2004). At the same time, the share of new social housing in total new housing output decreased from 8.9% in 2005 to 3.9% in 2009 (Dol, Haffner 2010).
The Housing Act (Act No. 114/1996) regulates social housing in Romania. According to the Act, social housing is a home that is rented from and/or subsidised by the state to be allocated to individuals or families whose economic circumstances do not allow access to their own home or to renting a home under market conditions. It states that the income threshold for eligible social tenants, i.e. average monthly income per person, needs to be below the national average (i.e. 217 Euro in 2015); and it limits the level of monthly rent paid by households, i.e. rents have to be below 10% of the household’s monthly income.

The Act also defines the social categories entitled to social housing: those rendered homeless by natural disasters and property retrocession processes; adults under 35; adults leaving social care institutions; the disabled; pensioners; veterans and widows of World War II; political dissidents from previous communist regimes; and martyr-heroes who participated in the Romanian Revolution in December 1989. The Act also places a ‘duty of care’ for social housing with local authorities. Local authorities are responsible for subsidising rents and for building, allocating, managing, and maintaining social housing. They also have the responsibility to prepare development plans and provide infrastructure for such housing. Local authorities are free to prioritise allocation as they see fit, but have a duty to secure the necessary finance from local budgets or loans. Thus, it has been argued that Romanian local authorities see social housing as a financial burden because of their duty to subsidise rents – the poorer a household, the higher the subsidy – and undertake maintenance (Cosima-Rughinis 2004).

Concerns about the salient role of municipalities in the allocation of social housing have been noted in other Eastern European countries. For example, Czech municipalities perceive it as a risk, especially in relation to the most vulnerable groups (Lux, Sunega 2017); and in Hungary, municipalities see existing social stock as a financial liability and so continue its privatisation and exclude the poorest households (Hegedüs 2017). In addition, new social housing provision is struggling across the region and affordability, a major issue after the transition, has worsened since the crisis (see Special Issue Part I). For example, according to Eurostat figures, in most Romanian towns market rent prices exceed 80% of the medium income.

While social housing policy and delivery mechanisms vary across Europe, two social housing types co-exist in Romania: rented social housing and affordable housing. While rented social housing is a place-based and housing-specific policy implemented through the construction and allocation of publicly-owned housing in line with government priorities and identified needs; affordable housing is a people-based policy, focusing on income distribution and investing in individuals who can become owners via housing-specific income support (Davidson 2009; Whitehead 2017). Both types acknowledge provisions made in the 1996 Housing Act in Romania. They are used interchangeably in national policy and amalgamated in national statistics under the general umbrella of ‘social housing’ or ‘housing rented at reduced price or for free’. Both rented social housing and affordable housing today are estimated to make up 2.5% of the total stock, making it difficult for Romania to implement housing policies with a strong social/welfare element.
Rented social housing

This is housing for the poorest in society (i.e. the unemployed, homeless, Roma, etc.), living as state tenants, a condition which has been derided since the 1960s. Most of Romania’s current rented social housing stock was developed before the 1990s and was located in so-called socialist apartment blocks and housing seized from private owners during nationalisation after World War II, which has not been sold to sitting tenants (see Figure 1). It is argued that rented social housing is made today of the very same ‘housing allocated before 1990 to the underclass of the socialist economy’ (Frontul Comun pentru Dreptul la Locuire 2014). The rents, new construction, and maintenance of rented social housing are financed from limited local budgets in accordance with Act No. 189/1998, within annually approved budgetary limits.

By 2010, rents in the rented social housing sector were regulated on the basis of tenant incomes i.e. the shortfall between a capped rent (that the tenant can afford and not higher than 10% of the household’s monthly income in Romania) and market rent was covered by the state (Hegedűs et al. 2014). As regarding newly-built rented social housing, it is assumed that the land to build on and the infrastructure are provided by municipalities free of charge. The central government assists in the construction of this type of housing by transfers from the national budget, annually set by the Ministry for Regional Development and Public Administration. There is no clear indication of how many new rented social housing units have been built in Romania since 1990.

Figure 1: Typical rented social housing in Romania: A. refurbished; B. not refurbished

A. [Image of refurbished housing]
B. [Image of not refurbished housing]

Source: author.

Affordable housing

Affordable housing is open to those who earn an income and are under the age of 35, which was an estimated 135,000 people in 2015 (CEB 2015). This is seen as an ‘in-between the rented social housing and the private rental market, in terms of rent levels and security of tenure’ (Poggio, Whitehead: 4). It is also called shared ownership or shared equity as it offers people
the opportunity to purchase part of their home and begin building their own equity. This model exists in other European countries (see, for example, Low Home-Ownership (LHO) housing in Britain) and envisions occupants starting out as social tenants and going on to become private owners over a period of time.

Affordable housing is the area into which the small provision of ‘social housing’ was channelled after 2000 in Romania (Frontul Comun pentru Dreptul la Locuire 2014). The National Housing Agency (Agentia Nationala pentru Locuinte or ANL) was specifically established in 1999 to support this type of housing. For example, ANL’s Rental Housing for Young People (‘Locuinte pentru Tineri’) National Programme, backed by Romania’s Central Bank, has since 2001 provided loans, drawing on international financing institutions such as Central European Bank, the Council of Europe Development Bank, or the Deutsche Bank AG (see Figure 2).

**Figure 2: Affordable housing in Romania**

There are no public national statistics available for the amount of new affordable housing built in Romania since 1990. However, two observations can be made in relation to the discussion above: overall, little new social housing has been built in Romania so far; and the amount of new rented social housing has been almost negligible. This means that we can assume that current statistics available for new social housing mainly refer to affordable housing. This housing dramatically decreased between 1990 and 2000, from 42,820 units in 1990 to 1,160 units in 2000, as a result of privatisation; and then improved slightly in 2001-2008, reaching 6,084 units by 2008 (Alpopi et al. 2014).
However, more recent research documents the emergence of a new sub-type of affordable housing, which we shall here call ‘self-help’ affordable housing (Turcu 2015; Turcu 2016; Turcu 2017; Turcu, forthcoming). Self-help affordable housing has been little documented in Romania and was first developed throughout the early 2000s. This was housing for newly formed households, with some capital and a low but steady stream of income, who could not afford to purchase housing at market price or tap into available mortgages. Local authorities provided them with land and basic infrastructure free of charge and a five-year interest-free loan to raise a basic structure, while the households had to prove that they were able to pay for foundations and continue building the house until it became inhabitable. If the foundations were not laid within the first year, the land was returned to the local authority. Households could not sell the house for the first five years, at the end of which they became full owners. This type of housing is similar to the World Bank’s site-and-services housing programmes in the developing context and has been criticised for its short-sightedness (Turcu, forthcoming).

Self-help affordable housing does not always target the long-term poor, i.e. some households can improve dramatically in five years or so, and many sell these houses at market price once they become full owners. But other households cannot ‘afford’ homeownership and, as the images below suggest, never manage to finance their homes beyond basic construction. This can result in sub-standard and inadequate housing conditions. Also, the public land on which this housing is built is likely to be poorly serviced and located in unpopular or fringe areas, i.e. close to polluted sites, railways, landfill, etc. (see Figure 3).

**Figure 3: Self-help affordable housing in Romania**

A. streetscape  
B. building in stages  
C. makeshift conditions

*Source: author.*

### The crisis and its aftermath

Romania entered recession in 2009, registering a sharp decline in industrial production, construction, exports, and lending activity (Zaman, Georgescu 2009). Cuts in public funding, but also in R&D and environmental protection investment followed. The effects of the crisis were mainly felt in urban areas where investment in a previously booming real estate market stopped and many businesses closed down. Public wages were cut, with Romania registering the highest cuts in public pay in Europe, at 25-50% in 2010 (Grimshaw et al. 2012). Pensions were also frozen, and social assistance and public investment were curtailed. These cuts were
imposed by external assistance from the EU and the IMF; 20 billion Euro were granted to Romania in 2009 (Grimshaw et al. 2012). Romania started to recover steadily in 2011, and at a faster pace than other European countries.

The crisis did not prompt a ‘housing crisis’ in Romania of the nature and intensity of other European countries and had a twofold impact on the housing sector. First, the construction sector contracted by 14% in 2009 as a consequence of less and more careful investment (Zaman, Georgescu 2009). Despite the slow recovery since 2011, however, a lack of new housing has pushed more people to rent privately or live with their families. The lack of regulation of private renting and the curtailed provision of social housing have left the housing sector in a total wilderness, with steep price increases compared to real income. For example, only 2,357 social housing units were built in 2011, down from 6,084 units in 2008 (Alpopi et al. 2014).

Second, the crisis has had little impact on the country’s overall banking system due to a tight national monetary policy. Commercial mortgages were guaranteed by the state, which meant that the banking sector remained relatively unscathed during the crisis (Frontul Comun pentru Dreptul la Locuire 2014). However, the crisis has affected Romania’s lending activity and resulted in foreclosures. Regardless of the fact that Romanians are not inclined to take loans (Tache, Neesham 2010), even fewer people than before have even been able to afford mortgages due to falling household income and tighter lending conditions. When combined with delays and inability to make mortgage/loan payments, due to unstable/shrinking incomes and loss of employment, this has led to a sharp fall in house prices. House prices declined up to the end of 2014, when the first small increase since the crisis was recorded (Eurostat 2014).

Table 1: Romania’s housing stock by tenure as % of total housing stock

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<tr>
<td>Tenant, rent at reduced price or free (social housing)</td>
<td>3.4</td>
<td>2.8</td>
<td>2.6</td>
<td>1.5</td>
<td>2.5</td>
<td>2.9</td>
<td>3.2</td>
<td>3.1</td>
<td>2.4</td>
<td>2.5</td>
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<tr>
<td>Tenant, rent at market price (private renting)</td>
<td>1.1</td>
<td>0.9</td>
<td>0.7</td>
<td>0.9</td>
<td>1</td>
<td>0.8</td>
<td>1.2</td>
<td>0.8</td>
<td>1.2</td>
<td>1.5</td>
</tr>
<tr>
<td>Owner</td>
<td>95.5</td>
<td>96.3</td>
<td>96.7</td>
<td>97.6</td>
<td>96.4</td>
<td>96.3</td>
<td>95.6</td>
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Note: Romania’s recession years are highlighted in grey.

The full impact of the crisis on Romania’s social housing is still to be understood. Table 1 looks at housing tenure in Romania between 2007 and 2016, and does not show significant changes throughout the period. However, the residualisation of social housing seems to have continued throughout the crisis years (highlighted in grey) and in their aftermath. This may be the result of the sale of rented social housing to sitting tenants, an on-going trend since the 1990s and extended until 2013, combined with stagnation in the supply of affordable housing, which had in the past had bumped up overall numbers of social housing, due to cuts in public spending.

The share of social housing seemed to pick up again in 2011 (at 2.5% from 1.5% in the previous year), then peaked in 2013 (3.2%), most likely owing to a fresh supply of affordable housing to boost a post-crisis housing market, and by 2017 it had fallen again to post-crisis levels (2.5%) by 2016. There are at least two explanations for this. First, some of the older pre-1990 rental social housing units have been returned to their previous owners in the restitution process,
which was implemented in every post-socialist country. Restituted apartments and houses generally became private rentals; this was especially notable in urban city centres, which have seen buoyant urban revival and consequently also significant market uplift following the crisis. Second, some of the new post-1990 affordable housing units have entered owner occupation after being sold on the market once the (affordability) conditions imposed on households expired, something that was also observed in other Eastern European countries by Hegedüs et al. (2014).

Economic uncertainty and public cuts have pushed local authorities to be even more ‘effective’ in the allocation of scarce resources. As Poggio and Whitehead (2017) note, the poorer the household, the less rent that can be charged, and the higher the risk of a municipality facing financial difficulties in times of financial instability. This and the fact that local authorities have the freedom to prioritise social housing categories may have led to certain vulnerable categories being favoured over others. That is to say, the poorest categories, such as the unemployed, the homeless, and Roma, may have been given less priority throughout and in the aftermath of the crisis.

There is little evidence of such practice, but this is probable due to the highly decentralised allocation of social housing in Romania, as well as the history of poor horizontal effectiveness of welfare provision documented in other post-socialist countries (Hegedüs et al. 2014). In addition, social housing policy initiatives have clearly shifted towards more market-oriented models of social housing, such as affordable housing, during and following the crisis. Instead of targeting the poorest, who represented a financial liability, these initiatives targeted housing affordability via subsidies to certain groups. These were measures targeting the redistribution of income from the ‘affluent’ to the ‘disadvantaged’, with a preference for younger middle-class households and key workers in Romania.

As such, in 2009 a new programme was launched, to address housing affordability problems worsened by falling incomes and uncertain economic conditions: the Prima Casa (‘First Home’) programme. The programme aimed to provide state-backed interest-free loans to first-time buyers for purchases not exceeding 60,000 Euro, and it targeted young, employed, credit-worthy professionals and their families. Public funds for subsidising affordable housing via both the Prima Casa and earlier the Locuinte pentru Tineri programme were cut in the immediate aftermath of the crisis, with a view to financing them from the sell-off of existing social dwellings to tenants. Only more recently Bucharest’s Mayor announced that new public land has been earmarked for the construction of some 6,570 social units (Romania Insider 2017), most likely affordable housing, but the future prospects of financing more affordable housing in other parts of Romania are unclear.

On reflection

To sum up, Romania’s current social housing stock is insignificant and has undergone extreme privatisation and residualisation in the last 25 years. Two main groups are particularly targeted for social housing in Romania: the poorest, usually housed in rented social housing, most of which is poorly maintained and managed post-socialist housing that failed to sell to sitting tenants; and a younger middle-class group still leaning on the state in their quest for financial
independence and home-ownership, who are usually housed in affordable housing. Construction rates for social housing have been very low and decreased further after the crisis. There has been no major housing reform since 1990 and social housing is interchangeably understood as rented social housing and affordable housing in Romania. Existing housing policy developments so far have contributed to fostering an ownership ideology. Consequently, social housing provision has mainly focused on affordable housing which employs a more market-oriented approach. The crisis has further fuelled developments in these directions.

This raises concerns about the poorest and most vulnerable in Romanian society. These are the groups housed in and in need of rented social housing and comprise the remaining sitting tenants, the unemployed, the homeless, and Roma. Public investment in the existing rented social housing stock has been minimal since 1990 and in the aftermath of the crisis, and mainly deployed in larger cities and urban areas (Turcu 2015; Turcu 2016). Thus, existing social tenants, and especially those living in medium and small towns, are at greater risk of living in poor housing conditions and poorly managed buildings. At the same time, the real conditions of rental social housing (i.e. size, rate of growth, geography etc.) are veiled by a national policy focus on affordable housing, targeting relatively better-off social groups. This is further hindered by a lack of clarity at the national level on the two different forms that social housing takes in Romania.

Three important factors, I argue, shape the future of social housing in Romania, with important implications for housing policy and practice. First, political will: Romania has seen significant political and street unrest over the last few years, which focused everybody’s attention on more stringent issues, such as corruption and the rule of law. This has happened against a backdrop of rising economic inequality and poverty since 1990 (Leitner, Holzner 2008). As a result, social housing has never been a political priority; not to mention the fact that Romania does not have a coherent housing policy and little space has been given to housing overall on political manifestos since 1990.

Second, financial and institutional innovation: Romania needs new financial models but also new actors involved in social housing provision. Most other transition countries have struggled so far to reinvent social housing and/or come up with financial models that are sustainable and effective in the long term (Hegedüs et al. 2014). The privatisation of socialist stock is one example of that. Local authorities are important actors in the provision and allocation of social housing but they have few financial resources or policy instruments and consequently have little capacity for reform. They may also worryingly overlook the poorest in their areas, while they remain the only social landlords in Romania.

Finally, policy integration: housing policy is closely related to and should be integrated with other policy sectors. For example, environmental policy, i.e. social housing, contributes to pollution, resource consumption etc.; and urban planning policy, i.e. social housing, can contribute to spatial and socio-economic segregation; but also energy policy, i.e. people living in social housing, are more likely to be affected by fuel poverty; and wider urban policy dealing with social exclusion and urban deprivation.
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